

Form F. R. 567

END SHEET

KIND OF MATERIAL OR NUMBER 333.343

NAME OR SUBJECT Allocation of Participations in
System Open Market Account
Federal Open Market Account

DATES (inclusive) Nov 1947 - 1954

PART NUMBER Part 5

Mr. Edwards ✓
Mr. Stone
Mr. Fitzgerald

FEDERAL RESERVE BANK
OF NEW YORK

REC'D IN FILES SECTION
APR 9 1954
300.343

NEW YORK 45, N. Y.

Handwritten initials

April 1, 1954

Mr. Robert F. Leonard, Director
Division of Bank Operations
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Mr. Leonard:

We have today sent to the Reserve Banks a copy of the computation showing the changes in participations in System Open Market Account on April 1, 1954, pursuant to the provision for reallocation approved at the meeting of the Federal Open Market Committee on June 11, 1953.

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

Very truly yours,

Robert G. Rouse

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

*1 copy deleted
K 32
another for Mr. Daniels*

Enclosures (5)

FOR FILES
E. W. Conover

COPY OF SIMILAR LETTER SENT TO THE PRESIDENT OF EACH FEDERAL
RESERVE BANK EXCEPT NEW YORK

RECEIVED IN FILES SECTION
APR 9 1954

MISC. 140A.1-40M-7.53

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45. NEW YORK

April 1, 1954

C
O
P
Y

Mr. Joseph A. Erickson, President
Federal Reserve Bank of Boston
Boston, Massachusetts

Dear Mr. Erickson:

In accordance with our telegram of today, I enclose
herewith computation of the readjustments made on April 1, 1954
in the participations of the Federal Reserve Banks in the System
Open Market portfolio.

Very truly yours,

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

Enclosure

FOR FILES
E. W. C. [unclear]

REC'D IN FILES SECTION

1954

APR

CONFIDENTIAL F.R.

REALLOCATION OF U. S. GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, APRIL 1, 1954
(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Richmond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Daily average of total assets, year ending February 28, 1954	51,161,873	2,822,998	13,068,387	3,113,636	4,384,907	3,013,331	2,605,751	8,944,024	2,140,877	1,256,367	2,207,312	2,010,340	5,593,943
B. Ratio (per cent) based on "A"	100.0	5.5178	25.5432	6.0858	8.5707	5.8898	5.0931	17.4818	4.1845	2.4557	4.3144	3.9294	10.9338
C. Actual allocations March 31, 1954	24,632,337	1,356,355	6,341,053	1,484,197	2,091,015	1,460,698	1,259,919	4,257,256	1,036,307	607,951	1,073,551	978,470	2,685,565
D. Allocation on basis of "B"	24,632,337	1,359,163	6,291,887	1,499,075	2,111,164	1,450,795	1,254,550	4,306,176	1,030,740	604,896	1,062,738	967,903	2,693,250
E. Difference	+94,440	+2,808	-49,166	+14,878	+20,149	-9,903	-5,369	+48,920	-5,567	-3,055	-10,813	-10,567	+7,685
F. Actual reserve ratio March 31, 1954	46.0	43.3	48.1	46.9	48.4	42.2	42.7	45.6	43.6	43.2	43.6	45.2	46.7
G. Reserve ratio March 31, 1954 adjusted for allocation	46.0	43.2	48.5	46.4	47.9	42.6	43.0	45.0	43.9	43.5	44.1	45.8	46.5

Federal Reserve Bank of N. Y.
Securities Department
April 1, 1954

DECLASSIFIED
Authority E.O. 10501

MISC. 140A.1-40M-7-53

FEDERAL RESERVE BANK OF NEW YORK

RECORDED IN FILES SECTION
 APR 9 1954
 NEW YORK 45. NEW YORK

SECURITIES DEPARTMENT
 HVL:CS

April 1, 1954

CHARGE TO "EAB"

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

Readjustment of participations in Government securities held in System Account is being made today under the provision for reallocation of Government securities approved by the Federal Open Market Committee June 11, 1953. The computations showing adjustments made in participations of the several Federal Reserve Banks are being mailed to all Reserve Banks tonight. These computations indicate an

INCREASE

DECREASE OF \$

in your participation. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today.

ERICKSON, BOSTON	INCREASE	\$2,808,000
WILLIAMS, PHILADELPHIA	INCREASE	14,878,000
FULTON, CLEVELAND	INCREASE	20,149,000
LEACH, RICHMOND	DECREASE	9,903,000
BRYAN, ATLANTA	DECREASE	5,369,000
YOUNG, CHICAGO	INCREASE	48,920,000
JOHNS, ST. LOUIS	DECREASE	5,567,000
POWELL, MINNEAPOLIS	DECREASE	3,055,000
LEEDY, KANSAS CITY	DECREASE	10,813,000
IRONS, DALLAS	DECREASE	10,567,000
EARNHART, SAN FRANCISCO	INCREASE	7,685,000

HOUSE

FOR FILES
 E. W. Conover

REC'D IN FILES SECTION
FEB 23 1954
333,343

dm

February 18, 1954.

Mr. R. G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, N. Y.

Dear Bob:

(see memo 2/15/54 Daniels to Leonard)

In accordance with our conversation, enclosed is a copy of a draft of the memorandum to the Federal Open Market Committee regarding allocations of securities in the Open Market Account. It is prepared with the thought that it might be helpful to send some such memorandum to the Open Market Committee in advance of the annual meeting. We expect to have the actual figures, based on the 12-month averages ending February 28, 1954, available for the meeting.

If you think some such memorandum would be desirable, I would appreciate your comments and suggestions, and feel free to shoot.

My own suggestion would be that if a memorandum is sent, it be accompanied by Tables I, II, and III, but not by Table IV.

Sincerely,

R. F. Leonard, Director,
Division of Bank Operations.

NOTE: Bob Rouse said today he had gone over the memorandum, thought it was good, and to let it go out.

Enclosure

ATL

FILE COPY

FILED
FEB 23 1954

RFL:jbs

RECD IN FILES SECTION
FEB 17 1954
333,343

February 15, 1954

Mr. Leonard
M. H. Daniels


Allocation of System Open
Market Account.

Attached is a draft of a memorandum which might be used by you and Mr. House to review experience under the formula for re-allocations of Government securities in the System Account.

Also attached is a memorandum from Mr. Franzoni. ^{2/15/54} Table I of this memorandum shows the results of a reallocation at this time based on average total assets for the year ending January 31, which results are summarized in the draft attached. Table III gives a summary of the reserve ratio experience under the new formula in the form you suggested.

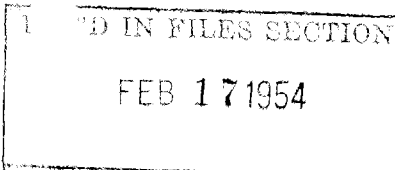
The effect of the \$500 million sale of securities to the Treasury on the lowest reserve ratio of the various Banks is shown in Table IV attached to Mr. Franzoni's memorandum.

Attachments.

MD/nss 

FILE COPY

FOR FILES
D. L. Werner

D R A F T

TO: Federal Open Market Committee
 FROM: R. G. Rouse and R. F. Leonard

The procedure for allocation of securities in the Open Market Account which became effective September 1, 1953 (Mr. Riefler's letter of August 25, 1953), *filed Home General* provides that —

"Securities in the Account shall be reallocated April 1 of each year on the basis of daily averages of total assets for the 12 months ending with the last day of February."

In anticipation of the March meeting of the Federal Open Market Committee, a pro forma allocation of securities held in the System Open Market Account has been made as of February 1, 1954, based on the ratios of each Bank's average total assets for the 12-month period ending January 31, 1954.

It appears that the formula is working satisfactorily and we recommend that the reallocation be made April 1 as provided in the present procedure.

The pro forma reallocation as of February 1 shows relatively small shifts in participations, and it is expected that the changes in percentage participations in the April 1 reallocation will be substantially those indicated by the trial run. New York's percentage shows a loss of slightly less than two-tenths of one per cent, with Chicago showing approximately the same gain. With these exceptions the changes in participation percentages are less than one-tenth of one per cent in each case.

DRAFT

- 2 -

The pre forma reallocation would have increased the dollar amount of participations of five Banks and decreased those of seven Banks, as follows:

<u>Increases in participation</u>		<u>Decreases in participation</u>	
Boston	\$2,316,000	New York	\$46,051,000
Philadelphia	13,231,000	Richmond	8,451,000
Cleveland	19,292,000	Atlanta	5,470,000
Chicago	44,942,000	St. Louis	4,830,000
San Francisco	7,860,000	Minneapolis	3,252,000
		Kansas City	9,732,000
		Dallas	9,855,000
	<u>\$87,641,000</u>		<u>\$87,641,000</u>

During the five months in which the new formula has been in effect, it has not been necessary to invoke paragraphs 5 or 6 of the statement of Procedures with Respect to Allocations of the System Open Market Account, which provide for adjustments of participations in the case of unusually low reserve ratios (below 30 per cent). The lowest ratio during the period was 38.8 per cent at Kansas City on December 2, 1953. The highest reserve ratio was 48.8 at Philadelphia on December 21, 1953. For all Banks combined the high ratio was 45.8 (January 29-31, 1954) and the low ratio was 43.8 (December 19 and 26, 1953).

2-15-54

MD/dlw

REC'D IN FILES SECTION
FEB 17 1954
333.343
February 15, 1954

Mr. Leonard

Allocation of System Open

J. C. Franzoni

Market Account

You asked for information concerning the Banks' experience with the new formula for allocating the U. S. Government securities held in the System Open Market Account, which was authorized by the Federal Open Market Committee on June 11, 1953. The first reallocation under this formula was made September 1, 1953 on the basis of the ratio of the daily average of each Bank's total assets to the System total in the year ending July 31, 1953.

Table I, attached, shows a pro forma reallocation which might have been made February 1, 1954. This table is based on the daily average of total assets for the year ending January 31, 1954.

Table II shows a comparison of each Bank's per cent of participation in the System Open Market Account with participation percentages on the basis of the pro forma reallocation in Table I.

Table III shows reserve ratios on September 1, 1953 and on January 31, 1954, and the high and low ratios for each Bank during this period, together with the dates on which they occurred.

You asked about the effect of the November 9, 1953 sale of \$500 million Treasury Notes to the Treasury Department on the Banks' individual reserve ratios, with particular reference as to how much lower a Bank's reserve might have been without the benefit of this transaction on the low ratio date between November 9, 1953 and January 31, 1954.

Table IV, attached, shows that the Kansas City Bank had the lowest reserve ratio of 38.8 during the period and that without its \$21,791,000 participation in the November 9 sale a ratio of 37.6 would have been shown. In general, the table shows that on the date of the lowest ratios, they would have been less by:

1% at five Banks - New York, Philadelphia, Cleveland, Chicago, and San Francisco

1.1% at five Banks - Richmond, Atlanta, St. Louis, Minneapolis, and Dallas

1.2% at two Banks - Boston and Kansas City

FILE COPY

FOR FILES
D. L. Werner

Attachments

TABLE I

PRO FORMA REALLOCATION OF U. S. GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, FEBRUARY 1, 1954
(In thousands of dollars)

	System	Boston	New York	Phila- delphia	Cleve- land	Richmond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Daily average of total assets, year ending January 31, 1954	51,210,657	2,824,673	13,087,345	3,113,145	4,387,315	3,019,205	2,608,006	8,944,228	2,144,466	1,257,190	2,211,660	2,013,770	5,599,654
B. Ratio (per cent) based on "A"	100.0	5.5158	25.5559	6.0791	8.5672	5.8957	5.0927	17.4656	4.1875	2.4549	4.3188	3.9323	10.9345
C. Actual allocations January 31, 1954	24,639,362	1,356,742	6,342,862	1,484,620	2,091,611	1,461,114	1,260,279	4,258,470	1,036,603	608,124	1,073,857	978,749	2,686,331
D. Allocation on basis of "B"	24,639,362	1,359,058	6,296,811	1,497,851	2,110,903	1,452,663	1,254,809	4,303,412	1,031,773	604,872	1,064,125	968,894	2,694,191
E. Difference	+ 87,641	+ 2,316	- 46,051	+ 13,231	+ 19,292	- 8,451	- 5,470	+ 44,942	- 4,830	- 3,252	- 9,732	- 9,855	+ 7,860
F. Actual reserve ratio January 31, 1954	45.7	44.6	46.9	46.4	46.5	41.1	41.1	46.8	44.4	44.9	44.9	43.2	46.6
G. Reserve ratio January 31, 1954 adjusted for allocation	45.7	44.5	47.3	46.0	46.0	41.4	41.3	46.3	44.7	45.2	45.4	43.7	46.5

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DIVISION OF BANK OPERATIONS
February 15, 1954

FILE COPY

DECLASSIFIED
Authority E.O. 10501

COMPARISON OF EACH FEDERAL RESERVE BANK'S PER CENT OF PARTICIPATION
IN THE SYSTEM OPEN MARKET ACCOUNT

Federal Reserve Bank	Present (9-1-53)	Pro forma (2-1-54)	Potential change	
			Increase	Decrease
Boston	5.5064 ^	5.5158 ^	.0094 ^	
New York	25.7428 ^	25.5559 ^		.1869 ^
Philadelphia	6.0254 ^	6.0791 ^	.0537 ^	
Cleveland	8.4889 ^	8.5672 ^	.0783 ^	
Richmond	5.9300 ^	5.8957 ^		.0343 ^
Atlanta	5.1149 ^	5.0927 ^		.0222 ^
Chicago	17.2832 ^	17.4656 ^	.1824 ^	
St. Louis	4.2071 ^	4.1875 ^		.0196 ^
Minneapolis	2.4681 ^	2.4549 ^		.0132 ^
Kansas City	4.3583 ^	4.3188 ^		.0395 ^
Dallas	3.9723 ^	3.9323 ^		.0400 ^
San Francisco	10.9026 ^	10.9345 ^	.0319 ^	
Totals	100.0 ^	100.0 ^	.3557 ^	.3557 ^

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DIVISION OF BANK OPERATIONS
February 15, 1954

Memorandum:

1% of Open Market Account 2-1-54 = \$246,400,000 ^
 .1% " " " " = 24,640,000 ^
 .01% " " " " = 2,464,000 ^

FILE COPY

DECLASSIFIED
Authority E.O. 10501

COMPARISON OF RESERVE RATIOS SEPTEMBER 1, 1953 - JANUARY 31, 1954

Federal Reserve Bank	Ratios on September 1, 1953	Ratios on January 31, 1954	High ratios		Low ratios	
			Date	Amount	Date	Amount
Boston	44.1 ^	44.6 ^	12/21/53 ^	46.7 ^	1/13/54 ^	41.7 ^
New York	45.9 ^	46.9 ^	1/27/54 ^	48.6 ^	12/24/53 ^	39.6 ^
Philadelphia	46.8 ^	46.4 ^	12/21/53 ^	48.8 ^	10/15-16/53 ^	44.2 ^
Cleveland	46.3 ^	46.5 ^	11/30/53 ^	47.7 ^	12/15/53 ^	44.0 ^
Richmond	42.1 ^	41.1 ^	11/12/53 ^	44.8 ^	1/20/54 ^	39.5 ^
Atlanta	41.0 ^	41.1 ^	12/24/53 ^	43.4 ^	11/23/53 ^	39.3 ^
Chicago	46.2 ^	46.8 ^	1/13/54 ^	47.5 ^	9/22/53 ^	43.8 ^
St. Louis	44.6 ^	44.4 ^	11/10/53 ^	46.1 ^	10/12/53 ^	41.8 ^
Minneapolis	44.1 ^	44.9 ^	12/ 9/53 ^	45.7 ^	9/22/53 ^	41.3 ^
Kansas City	41.8 ^	44.9 ^	1/29-31/54 ^	44.9 ^	12/ 2/53 ^	38.8 ^
Dallas	42.1 ^	43.2 ^	12/24/53 ^	46.4 ^	10/14/53 ^	39.8 ^
San Francisco	44.7 ^	46.6 ^	11/30/53 ^	48.0 ^	11/ 4/53 ^	42.9 ^
System	44.9 ^	45.7 ^	1/29-31/54 ^	45.8 ^	12/19/53) ^ 12/26/53) ^	43.8 ^

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM,
DIVISION OF BANK OPERATIONS.

February 15, 1954

FILE COPY

MBD/gmh

DECLASSIFIED
Authority E.O. 10501

TABLE IV

ANALYSIS TO DETERMINE EFFECT ON FEDERAL RESERVE BANK RESERVE RATIOS OF
SALE OF \$500 MILLION TREASURY NOTES TO TREASURY DEPARTMENT ON NOVEMBER 9, 1953
(Dollar amounts in thousands)

Federal Reserve Bank	Participations in \$500 million TN sold to Treasury 11-9-53	Date of lowest reserve ratio 11-9-53 through 1-31-54	Deposit and F. R. note liabilities on lowest reserve ratio date	Gold certificate reserves		Reserve ratios	
				On lowest reserve ratio date	Adjusted to remove effect of TN sale	Actual, on date of low point	Adjusted to remove effect of TN sale
Boston	\$ 27,532 ^	1-13-54 ^	\$ 2,474,837 ^	\$1,030,927 ^	\$1,003,395 ^	41.7 ^	40.5 ^
New York	128,714 ^	12-24-53 ^	12,461,330 ^	4,939,484 ^	4,810,770 ^	39.6 ^	38.6 ^
Philadelphia	30,127 ^	1-15-54 ^	2,855,997 ^	1,283,064 ^	1,252,937 ^	44.9 ^	43.9 ^
Cleveland	42,444 ^	12-15-53 ^	4,036,071 ^	1,777,490 ^	1,735,046 ^	44.0 ^	43.0 ^
Richmond	29,650 ^	1-20-54 ^	2,669,418 ^	1,054,815 ^	1,025,165 ^	39.5 ^	38.4 ^
Atlanta	25,574 ^	11-23-53 ^	2,335,794 ^	918,363 ^	892,789 ^	39.3 ^	38.2 ^
Chicago	86,416 ^	12-21-53 ^	8,591,142 ^	3,855,977 ^	3,769,561 ^	44.9 ^	43.9 ^
St. Louis	21,035 ^	12- 2-53 ^	1,994,220 ^	857,237 ^	836,202 ^	43.0 ^	41.9 ^
Minneapolis	12,341 ^	1- 6-54 ^	1,156,269 ^	493,564 ^	481,223 ^	42.7 ^	41.6 ^
Kansas City	21,791 ^	12- 2-53 ^	1,919,626 ^	744,211 ^	722,420 ^	38.8 ^	37.6 ^
Dallas	19,862 ^	12-16-53 ^	1,770,156 ^	722,054 ^	702,192 ^	40.8 ^	39.7 ^
San Francisco	54,514 ^	11-18-53 ^	5,263,646 ^	2,342,134 ^	2,287,620 ^	44.5 ^	43.5 ^

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DIVISION OF BANK OPERATIONS
February 15, 1954

FILE COPY

DECLASSIFIED

Authority E.O. 10501

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION
FEB 28 1954
Date February 15, 1954

Office Correspondence

To Mr. Leonard

Subject: Allocation of System Open

From J. C. Franzoni

Market Account

You asked for information concerning the Banks' experience with the new formula for allocating the U. S. Government securities held in the System Open Market Account, which was authorized by the Federal Open Market Committee on June 11, 1953. The first reallocation under this formula was made September 1, 1953 on the basis of the ratio of the daily average of each Bank's total assets to the System total in the year ending July 31, 1953.

Table I, attached, shows a pro forma reallocation which might have been made February 1, 1954. This table is based on the daily average of total assets for the year ending January 31, 1954.

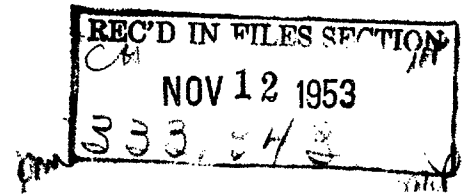
Table II shows a comparison of each Bank's per cent of participation in the System Open Market Account with participation percentages on the basis of the pro forma reallocation in Table I.

Table III shows reserve ratios on September 1, 1953 and on January 31, 1954, and the high and low ratios for each Bank during this period, together with the dates on which they occurred.

You asked about the effect of the November 9, 1953 sale of \$500 million Treasury Notes to the Treasury Department on the Banks' individual reserve ratios, with particular reference as to how much lower a Bank's reserve might have been without the benefit of this transaction on the low ratio date between November 9, 1953 and January 31, 1954.

Table IV, attached, shows that the Kansas City Bank had the lowest reserve ratio of 38.8 during the period and that without its \$21,791,000 participation in the November 9 sale a ratio of 37.6 would have been shown. In general, the table shows that on the date of the lowest ratios, they would have been less by:

- 1% at five Banks - New York, Philadelphia, Cleveland, Chicago, and San Francisco
- 1.1% at five Banks - Richmond, Atlanta, St. Louis, Minneapolis, and Dallas
- 1.2% at two Banks - Boston and Kansas City



DISTRIBUTION OF PROFITS AND LOSSES ON THE SALE OF SECURITIES ON
THE BASIS OF AVERAGE HOLDINGS OF SECURITIES OVER THE PREVIOUS
FIVE-YEAR PERIOD (REVISED PLAN FOR ALLOCATION OF SECURITIES)

9/21/53

Mr. Young recalled that in the revised plan for allocation of securities in the System open market account provision is made for distributing profits and losses on the sale of securities on the basis of average holdings of securities over the previous five-year period. It had been suggested, he said, that this plan could be simplified by discarding the special ratio and using the same ratios as are used for the basic distribution of securities and earnings. This would avoid the maintenance of a series of figures on holdings for five years back and, while it might make some difference between banks in the distribution of profits and losses on the sale of securities, it was not thought that such differences would be material, after payment of taxes to the Treasury. Mr. Young also suggested that after the new plan had been in operation five years it was probable that the five-year average of securities held will be practically identical with the current allocation based on total assets.

The Presidents agreed that there was merit in Mr. Young's suggestion but felt that there were valid reasons for sharing profits and losses on the basis of participation during the period and, since the work involved in complying with the present formula was not burdensome, took no action with respect to the matter.

FEDERAL RESERVE BANK
OF NEW YORK

W. S. ...
Mr. ...
7-11-53
D. L. Werner

NEW YORK 45, N. Y.

September 1, 1953

REC'D IN FILES SECTION
SEP 8 1953
332 343

Mr. Robert F. Leonard, Director
Division of Bank Operations
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Mr. Leonard:

We have today sent to the Reserve Banks a copy of the computation showing the changes in participations in System Open Market Account on September 1, 1953, pursuant to the plan of allocation approved at the meeting of the Federal Open Market Committee on June 11, 1953.

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

Very truly yours,

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

Enclosures (5)

FOR FILES
D. L. Werner

MISC. 140A.1-35M.1-53

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN FILES SECTION
SEP 8 1953
NEW YORK 45. NEW YORK

September 1, 1953.

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

Dear Mr. Williams:

In accordance with our telegram of September 1,
1953, I enclose herewith computations of the readjustments
made on September 1, 1953 in the participations of the
Federal Reserve Banks in the System Open Market portfolio.

Very truly yours,

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

FD

Enclosure

MISC 27.2-2M-4-52

FEDERAL RESERVE BANK
OF NEW YORK

SENT BY

COPY OF TELEGRAM

SEND TO FILES

REC'D IN FILES SECTION
SEP 8 1953

² ~~SECURITIES DEPARTMENT~~
CM:CS

CHANGE TO "SAE"

SEPTEMBER 1, 1953

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

Readjustment of participations in Government securities held in System Account is being made today under the provision for reallocation of Government securities approved by the Federal Open Market Committee June 11, 1953. The computations showing adjustments made in participations of the several Federal Reserve Banks are being mailed to all Reserve Banks tonight. These computations indicate an

INCREASE

DECREASE OF \$ in your participation. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today.

ERICKSON, BOSTON	DECREASE	331,180
WILLIAMS, PHILADELPHIA	DECREASE	59,598
FULTON, CLEVELAND	DECREASE	305,961
LEACH, RICHMOND	DECREASE	304,512
BRYAN, ATLANTA	DECREASE	216,339
YOUNG, CHICAGO	INCREASE	575,700
JOHNS, ST. LOUIS	DECREASE	270,707
POWELL, MINNEAPOLIS	DECREASE	156,098
LEEDY, KANSAS CITY	INCREASE	96,781
GENTRY, DALLAS	DECREASE	213,853
EARHART, SAN FRANCISCO	INCREASE	295,519

ROUSE

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, SEPTEMBER 1, 1953
 (In thousands of dollars)

CONFIDENTIAL

IN FILES SECTION
 SEP 8 1953

	System	Boston	New York	Phila- delphia	Cleve- land	Richmond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Daily average of total assets, year ending July 31, 1953	51,369,945	2,828,655	13,224,060	3,095,237	4,360,734	3,046,250	2,627,503	8,878,342	2,161,176	1,267,867	2,238,866	2,040,578	5,600,677
B. Ratio (per cent) based on "A"	100.0	5.5064	25.7428	6.0254	8.4889	5.9300	5.1149	17.2832	4.2071	2.4681	4.3583	3.9723	10.9026
C. Actual allocations August 31, 1953	24,988,666	1,707,156	5,542,535	1,565,265	2,427,224	1,786,340	1,494,484	3,743,141	1,322,005	772,843	992,300	1,206,478	2,428,895
D. Allocation on basis of "B"	24,988,666	1,375,976	6,432,783	1,505,667	2,121,263	1,481,828	1,278,145	4,318,841	1,051,298	616,745	1,089,081	992,625	2,724,414
E. Difference	± 1,858,248	- 331,180	+ 890,248	- 59,598	- 305,961	- 304,512	- 216,339	+ 575,700	- 270,707	- 156,098	+ 96,781	- 213,853	+ 295,519
F. Actual reserve ratio August 31, 1953	45.0	30.0	52.7	44.8	40.2	30.2	31.1	53.1	29.1	30.3	47.0	29.9	52.8
G. Reserve ratio August 31, 1953 adjusted for allocation	45.0	43.6	45.2	46.9	47.8	41.6	40.4	46.3	43.2	43.9	42.2	42.0	47.1

FOR FILE
 D.A. Walker

**FEDERAL RESERVE BANK
OF ATLANTA**

RECORD IN FILES SECTION
SEP 10 1953
124

OFFICE OF
PRESIDENT

August 21, 1953

✓
Dear Bob:

8/20/53
I did appreciate the sending of your letter to Hap Young in which you commented on Neil Dawes' suggestions.

It seems to me that the matter is not one of great importance, but I guess I am still a little unregenerate and unconvinced that we aren't doing it the hard way.

Highest regards,

Malcolm Bryan



Mr. Robert F. Leonard, Director
Division of Bank Operations
Board of Governors of the
Federal Reserve System
Washington 25, D. C.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

REC'D IN RECORDS SECTION
MAY 17 1957

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 25, 1953.

Dear Sir:

The Federal Open Market Committee, at its meeting on June 11, 1953, approved the allocation of securities in the open market account on the basis of total assets of the several Federal Reserve Banks and directed that detailed procedures for such allocation be prepared. Recommendations with respect to such procedures were made in a memorandum dated July 14, 1953 from Messrs. Rouse and Leonard, a copy of which was forwarded with my letter of the same date. The replies to that letter showed no objection to putting the procedures into effect September 1, 1953 and favored paragraph 7 of the memorandum rather than the alternative paragraph 7.

Accordingly, with the approval of the executive committee of the Federal Open Market Committee given at its meeting August 4, and reaffirmed at its meeting on August 25, 1953, the procedures set forth in the memorandum dated July 14, 1953 from Messrs. Rouse and Leonard will become effective September 1, 1953 and the reallocation will be made as of that date.

For your information, enclosed is a table showing the percentages of participation which will be used in the reallocation. These percentages are based on daily averages of total assets of each Federal Reserve Bank for the year ended July 31, 1953. The memorandum also shows what the effect would have been if the securities in the account on August 19, 1953 had been reallocated on the new basis. The usual statement of the actual reallocation will be forwarded to you by Mr. Rouse.

In view of the relatively large shifts in holdings and changes in reserve ratios which will result in some cases from the reallocation, the executive committee favored issuing a brief statement regarding the reallocation. This will be done by including the following note in the weekly statement of condition of the Federal Reserve Banks to be issued by the Board as of September 2. The note will appear as an insert between the third and fourth sheets of the statement:

The statements of condition of the Federal Reserve Banks reflect a reallocation effective September 1, 1953 of securities held in the System Open Market Account. Under

Aug 25 1953
General

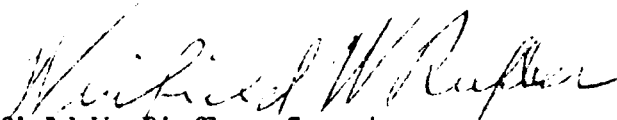
-2-

the reallocation, participations in the account are based on the size of the Federal Reserve Bank as measured by average total assets. Previously, securities were allocated primarily on the basis of expenses and dividend requirements of the Federal Reserve Banks.

Settlement for shifts in participations in the open market account between the Federal Reserve Banks is made through the Interdistrict Settlement (Gold Certificate) Fund. The reallocation, therefore, resulted in some changes in reserve ratios of individual Reserve Banks. It did not, of course, affect the reserve ratio of the twelve Reserve Banks combined or the total amount of assets of any Federal Reserve Bank.

A Federal Reserve Bank should, of course, feel free to amplify the statement in any way considered appropriate.

Very truly yours,



Winfield W. Riefler, Secretary,
Federal Open Market Committee.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

RY IN FILES SECTION
AUG 21 1953
Fome

Heil

August 20, 1953. *1C*

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

Dear Harry:

8/12/53
This is in response to your note requesting my reactions to the suggestion contained in Neil Dawes' memorandum of August 11 that profits and losses on sales of securities in the Open Market Account be distributed on the basis of current participations in the Account rather than on the basis of average holdings of securities over the previous five-year period.

The suggested change would be a simplification, but whether it would result in a significant reduction in work, I do not know. The distribution of profits and losses on the basis of average holdings over a period is one of long standing. I assume it was adopted on the theory, which seems to me sound, that the profit or loss on the sale of securities reflects the price paid as well as the price received and should be considered in connection with the earnings received during the interval. In one sense, the profits received on sales represent deferred earnings, and losses taken reflect an overstatement of earnings in the past. Equity, therefore, would seem to indicate that the profits and losses be distributed on the basis of holdings over a period rather than on the basis of participations in holdings on date of sale.

In drafting the memorandum regarding procedure with respect to allocations of the System Open Market Account to be effective September 1, Bob House and I did not attempt to suggest any change in this basic principle as we did not consider it as coming within the scope of our assignment. The only change suggested with respect to profits and losses was to treat all alike without distinction between those on interest-bearing securities and those on other securities. This change was thought to be consistent with the change made in June whereby each Bank's participation was in the entire Account.

I agree with Neil Dawes' two conclusions:

1. That after the new plan of allocation has been in operation for five years, it is probable that the five-year average of holdings will be very close to the current allocation based on total assets, and

Fome - Subject
Heil

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333.343

FILE COPY

FOR FILES
S. B. Smith

Mr. C. S. Young

- 2 -

2. That it is questionable whether it would make a material difference whether profits or losses for the next five years be distributed on the basis of average holdings over the previous five-year period or on the basis of current allocations, particularly after payment to the Treasury of interest on Federal Reserve notes is taken into consideration. 1C

Summing up, it seems to me that the distribution on the average holdings of securities over the five-year period is somewhat more logical than the simpler alternative proposed, and I have some question as to whether the simplification would result in a significant savings of work.

Malcolm Bryan also has some question regarding the real necessity of allocating profits and losses on the basis of the preceding five-year holdings. Of course, it would always be appropriate for a Federal Reserve Bank to propose reconsideration of the basis of distribution of profits and losses on the sale of securities from the Open Market Account.

Very truly yours,

R. F. Leonard, Director,
Division of Bank Operations.

P.S. I am sending copies to Malcolm Bryan and Bob Rouse.

R. F. L.

FILE COPY

REC'D IN FILES SECTION
AUG 24 1953

Handwritten signature

FEDERAL RESERVE BANK OF CHICAGO

Office of the President

To: Mr. Keener 8/12-53
Board

333,343

10

Bob - What is your
reaction to Neil Dewar
suggestion

Ray

REC'D IN FILES SECTION
AUG 21 1953

Copy filed

333,343

C. S. YOUNG

FOR FILE
b. B. Smith

FEDERAL RESERVE BANK
OF CHICAGO

REC'D IN FILES SECTION
AUG 21 1953

OFFICE CORRESPONDENCE

DATE August 11, 1953

TO Mr. C. S. Young, President

FROM Neil B. Dawes

SUBJECT - TOPIC FOR PRESIDENTS' CONFERENCE

In the revised plan for allocation of securities in the open market account portfolio, provision is made for distributing profits and losses on the sale of securities on the basis of average holdings of securities over the previous five-year period.

It is believed that this plan could be simplified by discarding the special ratio and using the same ratios as will be used for the basic distribution of securities and earnings. This will avoid the maintenance of a series of figures on holdings for five years back. While this proposal may make some difference between banks in the distribution of profits or losses on the sale of securities, it is not thought that such differences will be material, after payment of taxes to the Treasury.

Five years hence, - that is, after the new plan has been in operation five years, it is probable that the five-year average of securities held will be practically identical with the current allocation based on total assets.

RECORDED IN FILES SECTION
AUG 5 1953
Dorne

333,343/c
August 4, 1953

Mr. W. D. Fulton, President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Wilbur:

In your letter of July 16, 1953, to Mr. Riefler regarding the proposed procedure for allocation of securities in the Open Market Account, you point out an apparent inconsistency in paragraphs 3 and 5 of the memorandum accompanying the letter outlining the procedure. Both paragraphs deal with the situation where, because of a low reserve ratio, a Bank is unable to take or carry its prorata share based on total assets. In such cases the paragraphs state that sufficient of the securities to prevent the reserve ratio falling below 35 per cent shall be allocated to the Bank or Banks having the highest reserve ratios. Paragraph 3, but not paragraph 5, continues with the explanation that the amount the Bank is unable to take shall be allocated "in such a manner that the ratio of the Bank or Banks to which securities are reallocated will not be reduced below the ratio of any other Bank."

The procedure under both paragraphs is identical and the omission from paragraph 5 of the words quoted above has no significance. The reallocation procedure spelled out in paragraph 3 is in accordance with present practice and in an earlier draft of the memorandum the words quoted above were not included. They were inserted as an explanation when someone asked how securities would be allocated to the Bank or Banks having the highest reserve ratios. Since the words were inserted as an explanation and not as a modification or limitation, it was felt unnecessary to repeat the explanation in paragraph 5.

I hope this explanation satisfactorily clears up the apparent inconsistency, if not, please let me know.

Sincerely yours,

June 8
RECEIVED
C. S. Smith

*Original
333,343*

NOTE: I showed a copy of the draft of this letter to Bob Rouse this morning who thought it a clear explanation of the matter.
RFL

R. F. Leonard, Director,
Division of Bank Operations.

FILE COPY

REF ID IN FILES SECTION
AUG 5 1953
335,343
August 3, 1953

Mr. Riefler

Proposed Open Market

R. F. Leonard

Allocation Procedure.

All of the Banks have replied to your letter of July 14 regarding the proposed allocation procedure of securities in the Open Market Account. In that letter (copy attached) it was stated that, if the responses to the letter showed that there were no objections, it was proposed to put the procedure into effect September 1, 1953.

All of the Banks have indicated that the proposed procedure is agreeable. Mr. Mills, First Vice President of the Federal Reserve Bank of Minneapolis, advised in a telephone conversation this afternoon that the comments made in Mr. Powell's letter of July 29 ought to be considered as suggestions and not as objections to the proposed procedure, which is satisfactory to them.

Ten of the Banks specifically stated that they favored the proposed paragraph 7 rather than the alternative. Mr. Young did not comment on this point, and Mr. Powell stated that while they believed the alternative procedure would be a more desirable formula, they were willing to go along with the proposed paragraph 7.

Two Presidents made suggestions for possible consideration in the future. Mr. Powell suggests:

1. That consideration be given to making the reallocations on a quarterly basis rather than on an annual basis, and
2. That a Bank unable to take its full allotment as of September 1, or annually thereafter on April 1, because of a low reserve ratio, be permitted to obtain its equitable share of securities when its reserve ratio permits.

The full comments of Mr. Powell are quoted in the attached sheet.

Mr. Bryan states that their approval specifically includes paragraph number 7. He has some questions however, as to the real necessity of allocating profits and losses on the basis of average holdings over the preceding five years and states that, while not raising the question at this time, they may at some time want to raise for reconsideration the procedure of allocating profits and losses on the basis of a moving average.

Mr. Fulton raised an editorial question, which is being clarified by correspondence with him.

Attachments

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gone Herd*

RFL:jbs

Excerpt from Mr. Powell's letter of July 29, 1953

"In order to minimize the spread in reserve ratios among the Federal Reserve banks, we suggest that consideration be given to making the reallocations on a quarterly basis rather than on an annual basis which would permit adjustments for economic and seasonal factors which are not identical for all reserve districts.

"The memorandum describing the procedure indicates that any Federal Reserve bank, unable to take its full allotment as of September 1 or annually on April 1, shall not be permitted to obtain securities to which it is entitled under the formula, regardless of the subsequent improvement in its reserve ratios. It appears to us that it may not be desirable to include this in the reallocation procedure as any Federal Reserve bank may have a low reserve position because of temporary circumstances such as large borrowings, high float absorption as a result of weather conditions, transportation difficulties, or for other unexpected reasons. It would seem desirable that such Federal Reserve banks obtain their equitable share of securities after such conditions have ceased.

"Although the alternative procedure to Paragraph 7 seems to be a more desirable formula for the distribution of profits and losses during the next few years, the allocation of profits and losses on the basis of average daily participation in total holdings in the account undoubtedly would require less detailed accounting in New York, and for that reason we would go along with the procedure described under Paragraph 7 rather than the alternative procedure for the distribution of profits and losses."

REC'D IN FILES SECTION
AUG 5 1953
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CRK

August 3, 1953.

Mr. Riefler

Proposed Open Market

R. F. Leonard

Allocation Procedure.

Governor Mills and Governor Robertson have both responded by memorandum that they approve the proposed procedure, including paragraph 7, for allocation of securities in the Open Market Account, as set forth in your memorandum of July 14.

In a telephone conversation this afternoon, Governor Evans advised that he likewise approved the procedure.

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James
Earl
RFL:jbs

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Procedures with Respect to
Allocations of the System
Open Market Account

REC'D - RECORDS SECTION
MAY 17 1957

The Federal Open Market Committee, at its meeting on June 11, 1953, approved the allocation of securities in the Open Market Account on the basis of total assets of the several Federal Reserve Banks and directed that detailed procedures for such allocation be prepared for submission to the Committee.

file date 7/14/53

This memorandum has been prepared pursuant to such directive, and it is recommended that the following statement of procedures be approved:

1. Securities in the System Open Market Account shall be re-allocated on September 1, 1953, on the basis of the ratio of each Bank's total assets to the total assets for all Reserve Banks combined. Such ratios shall be on the basis of daily averages for the 12-month period ending July 31, 1953.
2. Securities in the Account shall be reallocated April 1 of each year on the basis of daily averages of total assets for the 12 months ending with the last day of February.
3. No allocation shall be made which would reduce the reserve ratio of a Bank below 35 per cent. If, because of the provisions of this paragraph, a Bank is unable to take its prorata share based on total assets, the amount which it is unable to take without reducing its reserve ratio below 35 per cent shall be allocated to the Bank or Banks having the highest reserve ratios in such a manner that the ratio of the Bank or Banks to which securities are reallocated will not be reduced below the ratio of any other Bank. Regardless of possible subsequent improvement in reserve ratios, no reversal of these adjustments shall take place pending the next general reallocation.
4. Increases and decreases in total amount held in the Account shall be apportioned on the basis of the ratios computed for the latest general reallocation.
5. If a Bank's reserve ratio falls below 30 per cent on a Tuesday or the next to the last day of the month, sufficient of its holdings as of the close of business that day to raise its reserve ratio to 35 per cent shall be re-allocated by an adjustment the following day, unless such day is a general reallocation date. Such securities shall be allocated to the Bank or Banks having the highest reserve ratios. (NOTE: This procedure does not contemplate partial reversal of these adjustments. However, full reversal of these adjustments will be made when a Bank's

*Original
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General*

-2-

reserve position improves to the extent that the full amount of its participation allocated to other Banks under the provisions of this paragraph can be restored without reducing the Bank's reserve ratio below 35 per cent.)

6. If a Bank's reserve ratio should fall below 30 per cent on any other day, or if a Bank anticipates that its reserve ratio will fall below that figure, it may arrange with the Manager of the Open Market Account to make an adjustment similar to those provided for in paragraph No. 5 so as to increase the Bank's reserve ratio to 35 per cent.
7. Profits and losses on the sale of securities from the Account shall be allocated on the basis of average daily participations in total holdings in the Account during the preceding five years. These ratios shall be computed as of the end of each month for the succeeding month.

R. G. Rouse

R. F. Leonard

July 14, 1953.

Alternative No. 7

7. Profits and losses on interest-bearing securities shall be allocated on the basis of average daily participations during the preceding five years. These ratios shall be computed as of the end of each month for the succeeding month. (For the period prior to June 17, 1953, the ratios shall be of participations in holdings of interest-bearing securities; thereafter of participations in the entire Account.) Until the five-year cycle of ratios based on participations in total holdings is completed, profits and losses on Treasury bills shall be allocated in proportion to the participations in the total holdings in the Account at the opening of business on the date the profit or loss is realized.

July 14, 1953.

RESERVE BANK OF ST. LOUIS
IN FILES SECTION
JUL 13 1953
July 16, 1953

Mr. Riefler

R. F. Leonard

Mr. Rouse has cleared the attached memorandum and proposed letter to the Open Market Committee.

He suggested that copies of the letter and memorandum be sent to the Presidents who are not members of the Open Market Committee.

Attachments *final*
7/10/53
FOMC
General

RFL:jbs

RFL

FILE COPY

RESERVE BANK OF ST. LOUIS
J. E. Smith

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION
JUL 15 1953
Date July 10, 1953

Office Correspondence

To Mr. Riefler

Subject: _____

From R. F. Leonard

RFL

Mr. Rouse has cleared the attached memorandum and proposed letter to the Open Market Committee.

He suggested that copies of the letter and memorandum be sent to the Presidents who are not members of the Open Market Committee.

Attachments

Memo as revised distributed to all FOMC members & Pres. who are not members with Mr Riefler's 7/10 letter of July 14, 1953
Fills

RECEIVED IN FILES SECTION
JUL 13 1953
308-342
July 10, 1953

FILES

Reallocation of Securities in
the Open Market Account.

R. F. Leonard

Attached is a memorandum of suggestions Mr. Rouse made with respect to the July 8 draft of the memorandum from him and me to the Open Market Committee.

I called Mr. Rouse back this afternoon and said that paragraph No. 6 of the procedures, as drafted, provided that if a Bank's reserve ratio should fall below 30 per cent between the regular adjustment periods, it might arrange with the Manager of the Open Market Account for an adjustment so as to increase its reserve ratio to not more than 35 per cent. I said that the words underscored had been included in order to provide flexibility and enable a Bank to request a smaller adjustment than one required under a rigid formula if it had reason to believe that its low reserve position was temporary and would be at least partially corrected within a few days.

Mr. Rouse said he would prefer to have the fixed ratio and I said I had no objection to eliminating the words "not more than."

I told him I thought the two other suggestions, which he had offered as to the memorandum, and the one suggestion regarding the letter, were distinct improvements and would be incorporated in the final draft. I also read to him a revised paragraph No. 5 of the procedures, to which he agreed.

This conversation represents his approval to the memorandum and the proposed letter.

He suggested that a copy of the letter be sent to the Presidents of the Reserve Banks who are not members of the Open Market Committee.

Attachment

FILE COPY

RFL:jbs

REC'D IN FILES SECTION
JUL 13 1953

July 10, 1953.

Mr. Leonard:

Mr. Rouse called with respect to your letter re reallocations, and suggested the following changes:

No. 6 of procedures

Delete the words "not more than" in the last ~~sentence~~ line.

No. 7 of procedures

After word "participations" in the second line, add the words "in total holdings".

Alternative No. 7

Change the last sentence to read:

"Until the five-year cycle of ratios based on participations in total holdings is completed, profits and losses on Treasury bills shall be allocated in proportion to the participations in the total holdings in the account at the opening of business on the date the profit or loss is realized."

①

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Riefler letter, first page, first quoted paragraph

Change the first quoted paragraph to read:

"Particular attention is called to paragraph No. 7 which describes a somewhat different basis for the allocation of profits and losses on the sale of securities from the Account than the present practice in that it would put into effect at once the procedure which would be arrived at five years hence under the present procedure which is described in the alternative paragraph No. 7."

②

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Mr. Rouse said he is making these suggestions without knowing your reasons for using the words he suggests deleting. He said with respect to the Riefler letter change that we have the two ratios now and the only thing accomplished is to minimize the risk of the men work on it picking up the wrong ratio.

After Mr. Rouse gave me the above changes, I transferred him to Mr. Daniels.

JLS
Mrs. Smith

FOR FILES
J. B. Smith

REC IN FILES SECTION
JUL 9 - 1953
333.343

CR

July 8, 1953.

Mr. R. G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, N. Y.

Dear Bob:

Enclosed are two copies of a draft of a memorandum dated July 8, 1953, regarding procedures with respect to allocations of the System Open Market Account. In this draft I have attempted to incorporate the suggestions that you and Si Miller made with respect to an earlier draft. Please go over this critically and make any further suggestions that come to mind.

let 6/22/53

The next step would be for Win Riefler to send the final draft to the members of the Open Market Committee.

Enclosed also are two copies of a draft of a letter Win could consider. The last sentence in the first quoted paragraph with respect to paragraph No. 7 is there to hold the place, and I hope that you may have suggestions for clarifying or strengthening the point.

Sincerely,

R. F. Leonard, Director,
Division of Bank Operations.

Enclosures

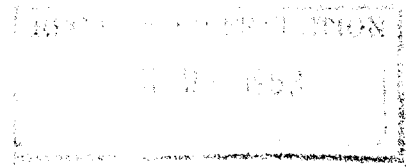
see final draft of enclosure 7/10/53

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RFL:jbs *RFL*

FOR FILES
J. A. Smith

Procedures with Respect to
Allocations of the System
Open Market Account



The Federal Open Market Committee, at its meeting on June 11, 1953, approved the allocation of securities in the Open Market Account on the basis of total assets of the several Federal Reserve Banks and directed that detailed procedures for such allocation be prepared for submission to the Committee.

This memorandum has been prepared pursuant to such directive, and it is recommended that the following statement of procedures be approved:

1. Securities in the System Open Market Account shall be re-allocated on September 1, 1953, on the basis of the ratio of each Bank's total assets to the total assets for all Reserve Banks combined. Such ratios shall be on the basis of daily averages for the 12-month period ending July 31, 1953.
2. Securities in the Account shall be reallocated April 1 of each year on the basis of daily averages of total assets for the 12 months ending with the last day of February.
3. No allocation shall be made which would reduce the reserve ratio of a Reserve Bank below 35 per cent. If a Bank is unable to take its full participation because of this provision, the amount which it is unable to take without reducing its reserve ratio below 35 per cent shall be allocated to the Bank or Banks having the highest reserve ratios.
4. Increases and decreases in total amount held in the Account shall be apportioned on the basis of the ratios computed for the latest general reallocation.

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- 2 -

5. If a Bank's reserve ratio falls below 30 per cent on a Tuesday or the next to the last day of the month, sufficient of its holdings to raise its reserve ratio to 35 per cent shall be reallocated on the following day to the Bank or Banks having the highest reserve ratios. (NOTE: This procedure does not contemplate partial reversal of these adjustments. However, adjustments will be made if a Bank's reserve position improves to the extent that its full participation can be reinstated without its reserve ratio declining below 35 per cent.)
6. If a Bank's reserve ratio should fall below 30 per cent on any other day, or if a Bank anticipates that its reserve ratio will fall below that figure, it may arrange with the Manager of the Open Market Account to make an adjustment similar to those provided for in paragraph No. 5 so as to increase the Bank's reserve ratio to not more than 35 per cent.
7. Profits and losses on the sale of securities from the Account shall be allocated on the basis of average daily participations in the Account during the preceding five years. These ratios shall be computed as of the end of each month for the succeeding month.

R. G. House

R. F. Leonard

July 8, 1953.

Draft , -8-53

TO: Members of the Federal Open Market Committee

RECEIVED IN FILES SECTION
JUL 9 - 1953

At its meeting on June 11, 1953, the Federal Open Market Committee approved the allocation of securities in the Open Market Account on the basis of total assets of the several Federal Reserve Banks and directed that detailed procedures for such allocation be prepared for submission to the Committee. Enclosed is a memorandum dated July 8, 1953, prepared by Messrs. Rouse and Leonard, containing recommendations with respect to such detailed procedures.

A letter similar to this is being sent to each member of the Committee and if the responses show that there are no objections, it is proposed that the suggested procedures be put into effect September 1, 1953.

The date of April 1 for the annual reallocation was suggested in order to give the new Open Market Committee each year the opportunity to consider the reallocations at its first meeting and have them become effective the first of the following month.

In submitting the memorandum, Messrs. Rouse and Leonard suggested that the following paragraphs be included in this covering letter:

"Particular attention is called to paragraph No. 7 which describes a somewhat different basis for the allocation of profits and losses on the sale of securities from the Account than the present practice. The present procedure is described in the alternative paragraph No. 7. The change is suggested in the interest of simplifying the accounting records.

"The proposed change would reduce slightly the share of

FOR FILE
J. B. Smith

- 2 -

Boston and to a lesser extent Atlanta, Minneapolis, and St. Louis in any profits and losses, with increased shares in the profits and losses going to New York, Chicago, and San Francisco. This is due to the fact that prior to June 17, 1953, adjustments because of low reserve positions were made to the extent possible through transfer of allocations of Treasury bills. It follows that the percentage allocations of the low reserve position Banks have been greater in interest-bearing securities than in total holdings, while the reverse is true in the case of the Banks to which the securities were transferred."

It will be appreciated if in your reply you make specific reference as to whether you approve the revised procedure or desire the continuation of the present procedure described in alternative paragraph No. 7.

Very truly yours,

Winfield W. Riefler, Secretary,
Federal Open Market Committee.

Enclosure

REC'D IN FILES SECTION
JUL 9 - 1953

Alternative No. 7

7. Profits and losses on interest-bearing securities shall be allocated on the basis of average daily participations during the preceding five years. These ratios shall be computed as of the end of each month for the succeeding month. (For the period prior to June 17, 1953, the ratios shall be of participations in holdings of interest-bearing securities; thereafter of participations in the entire Account.) Profits and losses on Treasury bills shall be allocated in proportion to the participations in the total holdings in the Account on the date the profit or loss is realized.

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FOR FILES
b. B. Smith

PLACED IN FILES SECTION
JUN 23 1953
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W.H.

June 23, 1953

Dear Sir:

As you know, following the decision of the Open Market Committee to base the allocation of securities in the Open Market Account on total assets of the Federal Reserve Banks, Bob Rouse and I were directed to work out detailed procedures for giving effect to that decision.

Attached are two copies of a rough draft of a memorandum along those lines. Will you please give it a going over and hand it to Bob Rouse when he returns.

Sincerely,

Enclosures

Mr. S. A. Miller, Assistant Vice President,
Federal Reserve Bank of New York,
New York 15, New York.

RFL:jbs

RFL

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FILED
JUN 23 1953

RECORDS MANAGEMENT
JUN 23 1953

Procedures with Respect to
Allocations of the System
Open Market Account

The Federal Open Market Committee, at its meeting on June 11, 1953, approved the allocation of securities in the Open Market Account on the basis of total assets of the several Federal Reserve Banks and directed that detailed procedures for such allocation be prepared for submission to the Committee.

This memorandum has been prepared pursuant to such directive and it is recommended that the following statement of procedures be approved:

1. Securities in the System Open Market Account shall be reallocated on _____, on the basis of the ratio of each Bank's total assets to the total assets for all Reserve Banks combined. Such ratios shall be on the basis of daily averages for the 12-month period ending _____.
2. Securities in the Account shall be reallocated (April 17) of each year on the basis of daily average of total assets for the 12-months ending (February 15?).
3. Adjustments of holdings of securities because of changes in the amount of securities held in the Account shall be made on the basis of the ratios computed for the latest general reallocation.
4. No allocation shall be made which would reduce the reserve ratio of a Reserve Bank below 35 per cent. If a Bank is unable to take its full participation because of this provision, the amount which it is unable to take without reducing its reserve ratio below 35 per cent shall be allocated to the Bank or Banks having the highest reserve ratios.

FOR FILE
JUN 23 1953

- 2 -

5. If a Bank's reserve ratio falls below 30 per cent on a Tuesday or the next to the last day of the month, sufficient of its holdings to raise its reserve ratio to 35 per cent shall be reallocated to the Bank or Banks having the highest reserve ratios. (NOTE: This procedure does not contemplate reversal of these adjustments.)
6. If a Bank's reserve ratio should fall below 30 per cent on any other day, or if a Bank anticipates that its reserve ratio will fall below that figure, it may arrange with the Manager of the Open Market Account to make an adjustment similar to those provided for in paragraph No. 5 so as to increase the Bank's reserve ratio to not more than 35 per cent.
7. Profits and losses on interest-bearing securities shall be allocated on the basis of average daily participations during the preceding five years. These ratios shall be computed as of the end of each month for the succeeding month. (For the period prior to June 17, 1953, the ratios shall be of participations in holdings of interest-bearing securities; thereafter of participations in the entire Account.) Profit and loss on Treasury bills shall be allocated in proportion to the participations in the Account on the date the profit or loss is realized.

RFL
6-23-53

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JUN 22 1953 *me*
333,343

6/18/53

RELATIONSHIP OF PROPOSED OPEN MARKET ALLOCATION
FORMULA TO LOSS SHARING AGREEMENT

At the meeting of the Federal Open Market Committee on June 11, 1953, question was raised as to whether the proposal to change the formula for allocation among the Federal Reserve Banks of securities in the System open market account would affect the legal status of the loss sharing agreement of the Federal Reserve Banks.

For some years past, allocations of Government securities in the System account have been basically in proportion to expense and dividend requirements of the several Federal Reserve Banks. Under the proposed new formula allocations would be made on the basis of the total assets of the respective banks. The loss sharing agreement of the Federal Reserve Banks contains certain recitals in its "whereas" clauses with regard to the allocation of investments for the System account among the Federal Reserve Banks. These recitals include the statement that the application of the principle of allocation would tend to increase the participations of banks having large losses and to reduce the participations of others, thus, in effect over a period of time distributing large losses sustained by one bank among the twelve banks.

It is my opinion that a change in the formula for allocation of securities among the Federal Reserve Banks as proposed would not render the loss sharing agreement invalid or remove the authority of the Federal Reserve Banks to participate in such an agreement. There are

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FOR FILES
E. Edwards

-2-

several reasons for this conclusion:

1. The authority of the Federal Open Market Committee to utilize a formula similar to that now existing and based upon expenses and dividend requirements will not be lost by the change to a formula having a different basis, but such authority will continue whether actually exercised or not. Furthermore, circumstances may well arise in the future that will cause the Federal Open Market Committee to return to a formula based upon expenses and dividend requirements and the memorandum recently presented to the Federal Open Market Committee with respect to the proposed change in the allocation formula contemplates the possibility of such a revision to meet changed conditions. It is also to be noted that there will be no change in the present provisions of the regulations of the Federal Open Market Committee under which the principles governing the allocation of securities among the several Federal Reserve Banks in the System account are to be made "with a view of meeting the changing needs of the Federal Reserve Banks."

2. Although the allocation formula now proposed will not be based upon expenses and dividend requirements it nevertheless will provide a method of sharing and distributing income from securities among the several Federal Reserve Banks and, like the existing formula, will have a significant and important effect upon the net earnings of the respective Federal Reserve Banks. There would seem to be little difference from the standpoint of legal authority between agreements to

-3-

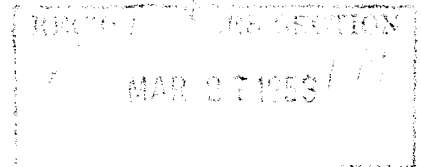
increase or decrease, and thus to share, net earnings, and agreements to share expenses or losses.

3. The authority of the Federal Reserve Banks to enter into the loss sharing agreement is derived from the law, and the action of the Federal Open Market Committee in changing the basis for the allocation formula, of course, is no way involves any change in the law. Since it is the law, and not the allocation formula, that is the source of the power of the Federal Reserve Banks, they will continue to have the same legal authority to participate in the loss sharing agreement when operating under the new formula as they now have in operating under the existing formula.

It is recognized, however, that certain of the recitals in the loss sharing agreement with reference to the allocation formula of the Federal Open Market Committee may not be factually accurate after the adoption of the proposed new formula based upon total assets. Accordingly, it is believed that it would be desirable to reconsider and modify the recitals of the "whereas" clauses of the loss sharing agreement as soon as it is practicable and convenient to do so. It does not appear, however, that the possibility of such a change in the form of the loss sharing agreement should in any way affect the making effective of the proposed change in the allocation formula of the Federal Open Market Committee, or the pending revision of the loss sharing agreement to extend its coverage to losses caused by fire and allied risks.

6/18/53

George B. Vest



March 25, 1953.

Mr. Malcolm Bryan, President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Malcolm:

In our conversation the other day, and your letter of March 19, you referred to a possible change in the basis of allocation of securities in the Open Market Account.

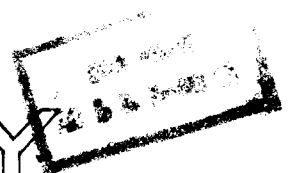
As you know, we here in the Division of Bank Operations have been studying this matter. At the meeting of the Federal Open Market Committee on March 4 Chairman Martin referred to this review and it is understood that a study of the allocation formula would be completed in time to have a discussion of any suggested changes at the next meeting of the full Open Market Committee.

We have expected that copies of the study, when completed, would be sent to the Presidents of the Federal Reserve Banks for their comments before the next meeting of the Federal Open Market Committee. In accordance with your request we shall, of course, also be glad to keep the Presidents informed, through any Committee that they may wish, of the work in this connection.

Sincerely,

R. F. Leonard, Director,
Division of Bank Operations.

FILE COPY



AA

REC'D IN FILES SECTION
MAR 20 1953

March 20, 1953

Mr. Leonard

Mr. Riefler

10

For your information there is quoted below an excerpt from the minutes of the meeting of the Federal Open Market Committee on March 4, 1953.

"In a discussion of the procedure for the allocation of securities in the System open market account, Mr. Leedy stated that he felt the existing formula which had been adopted in January 1948 and modified in minor points upon one or two occasions since that time was not entirely satisfactory. He suggested that the present allocation procedure be continued at this time with the understanding that at the meeting of the Committee in June consideration be given to the adoption of a more satisfactory formula.

"Chairman Martin stated that he understood this formula was now being reviewed by Mr. Leonard, Director of the Board's Division of Bank Operations, and he suggested that the present allocation procedure be continued with the understanding that a study of the formula would be completed in time to have a discussion of any suggested changes at the next meeting of the full Committee.

"The foregoing suggestion was approved unanimously."

MS:me
[Handwritten signature]

Bank Files me

FILE COPY

1. PLACED IN FILES SECTION
MAR 27 1953
M...

FEDERAL RESERVE BANK
OF ATLANTA

OFFICE OF
PRESIDENT

March 19, 1953

Dear Bob:

Attached is a copy of a letter to Ralph Young. It is, with our telephone conversation this morning, entirely self-explanatory.

I believe, as you suggested, that the problem of the allocation formula is not primarily a research matter. Accordingly, as soon as I have heard from you, I will write Hugh Leach and suggest that he assign the problem of liason to a more appropriate committee of the Presidents' Conference. It got assigned to me, I guess, because I raised the questions.

As ever,

Malcolm Bryan



Mr. Robert F. Leonard, Director
Division of Bank Operations
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Enclosure

PLACED IN FILES SECTION
MAR 27 1953

FEDERAL RESERVE BANK
OF ATLANTA

RECL. N FILES SECTION
MAR 27 1953

March 19, 1953

Dear Ralph:

You doubtless noticed on the agenda of the last Presidents' Conference the two items proposed by Atlanta. In any event, a copy is attached for your information or recollection.

The agenda was crowded and we did not have time for anything remotely resembling a full-dress discussion. That was just as well because no one present, distinctly including myself, seemed prepared for an extended discussion and certainly not for a statement of conclusions. So the problems implied by the questions were merely introduced into the thinking of the Presidents.

I took the liberty of reporting my conversation with you, saying that the research staff was interested, and that Bob Leonard was interested in reviewing our allocation formula. I suggested, and the Presidents approved, that I be empowered to get in touch with you and Bob Leonard and to ask that we be kept informed, through the Presidents' Research Committee, of projects or conclusions by the research staff at the Board or by the Bank Operations staff. I wonder if you would be willing, accordingly, to write me in that regard, so that I may inform the Research Committee. I am sending a copy of this letter, together with a brief separate note, to Bob Leonard.

Cordially,

Malcolm Bryan

Mr. Ralph A. Young, Director
Division of Research and Statistics
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

✓ Copy to:
Mr. Robert F. Leonard, Director
Division of Bank Operations
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

MAR 27 1953

READ IN FILES SECTION
MAR 27 1953

III. A.

The Atlanta Bank points out that interdistrict shifts of funds present individual Federal Reserve Banks with problems of declining reserves. The question has arisen as to whether a Federal Reserve Bank should attempt to shift borrowings outside its district through a discount rate higher than the general level. This differential, it is noted, might also serve to retard investment and loan expansion of commercial banks within the district.

III. B.

This topic was suggested by the Federal Reserve Bank of Atlanta. That Bank points out that a Federal Reserve Bank with a low reserve position could be embarrassed by sudden large transfers of funds to other districts. The development of the Federal Funds Market increases the probability of sudden losses.

FORM F. R. 326

CROSS REFERENCE SHEET

~~NOT RECEIVED BY FILES~~

REC'D IN FILES SECTION
MAR 12 1953

DATE February 26, 1953

KIND OF MATERIAL: **Memo Rouse to Secretary's Office**

NAME OR SUBJECT: **Re: Presidents Conference
March 2 - 3, 1953**

REMARKS: **Original filed: 324. 3/2/53**

CHECKED BY FS

DATE 3/12/53

M. ...
M. ...
REC'D IN FILES SECTION
JAN 27 1953
LEASING TELEGRAM
RECEIVED AT WASHINGTON

1953 JAN 26 PM 1 32

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WA72G06BD WASH GX176 CGO 26-1157

LEONARD

1/2 3/53

RETEL PLEASE SEND ME COPY OF STATISTICAL STATEMENT MAILED LAST
WEEK TO BLACK, AND ADDRESS FUTURE STATEMENTS TO ME.

L.H. JONES.

FOR FILES
D. L. Werner

FILES:

Refers to statement of note and deposit liabilities,
gold certificate reserves, and reserve ratios
sent each week to Chicago as requested in
Mr. Black's letter of June 29, 1951. Copies of
the statements are not sent to files.

REC'D IN FILES SECTION

dlw

JAN 27 1953

WA52GC81BD WASH GX103 CGO 23-1132

LEONARD

REC'D IN FILES SECTION
JAN 26 1953

TELEGRAM
RECEIVED WIRE ST
RECEIVED AT WASH

JAN 23 PM 12

AIR MAIL LETTER FROM BOARD ADDRESSED TO MR. ALLAN M. BLACK, VICE PRESIDENT, WILL BE FORWARDED TO HIM IN TUCSON, ARIZONA, ON ASSUMPTION THAT BOARD'S STAFF KNOW OF BLACK'S RETIREMENT AND THE LETTER IS PERSONAL. IF YOU HAVE KNOWLEDGE THAT THIS IS BANK BUSINESS, ~~PLEASE~~ PLEASE WIRE ME PROMPTLY TO OPEN IT.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

JONES.

FOR FILE
J. H. [unclear]

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

RECORDED IN FILES SECTION
JAN 26 1953
103,343
yml

January 23, 1953.

Jones - Chicago

1/23/53
Retel. Envelope addressed to Black contains statistical statement furnished in response to his request. While those of us who knew Black, and many others, were aware of his retirement, it had not percolated down to the individual who has been sending out this particular advice. Please advise whether you desire statement continued and if so to whom it should be addressed.

LEONARD

FILE COPY

FOR FILE
J. B. Smith

REC'D IN FILES SECTION
 JAN 21 1953
 January 16, 1953

Files

E. Ralph Massey

This relates to the reallocation for 1953 of the System Open Market Account among the twelve Federal Reserve Banks. Such reallocations are based upon the ratio of each Bank's net budget to the total net budgets of all Reserve Banks. Net budget is the total budget, less reimbursements.

At Mr. Leonard's oral request, following is a reconciliation of the amount of total net budgets of the Reserve Banks for 1953, as shown in the Budget Analysis, with the amount actually used as a basis for re-allocating participations of each Reserve Bank for that year in the System Open Market Account.

Total net budget of the Reserve Banks (as shown in the Budget Analysis)	\$114,423,372
Deduct: Amount of underestimate in cafeteria receipts as reported by the Federal Reserve Bank of New York after submission of its budget	20,000 <u>\$114,403,372</u>
Add: Net amount of differences re- sulting from rounding each Bank's budget to the nearest thousand	<u>1,628</u>
Amount used as basis for reallocating participations in the System Open Market Account	<u><u>\$114,405,000</u></u>


 ERM:acf

FILE COPY

~~Mr. Leonard~~
Mr. Daniels

FEDERAL RESERVE BANK
OF NEW YORK

REC'D IN FILES SECTION
JAN 8 1953

NEW YORK 45, N. Y.

January 5, 1953

Dear Mr. Leonard:

We received your letter of January 2, 1953 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on January 2, 1953, as of January 1, 1953, pursuant to the procedure approved at the meeting of the Federal Open Market Committee on December 9, 1947.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on January 2, 1953.

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Dotted m D7

Very truly yours,

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

Mr. Robert F. Leonard, Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

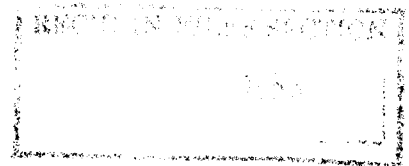
Enclosures (5)

FOR FILES
D. L. Werner

SIMILAR LETTER SENT TO PRESIDENTS OF THE OTHER FEDERAL RESERVE BANKS EXCEPT NEW YORK.

MISC. 140A-80M-3-48

FEDERAL RESERVE BANK OF NEW YORK



January 5, 1953

Mr. Joseph A. Erickson, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Erickson:

In accordance with our telegram of January 2, 1953, I
enclose herewith computation of the readjustments made on
January 2, 1953, as of January 1, 1953, in the participations of
the Federal Reserve Banks in the System Open Market portfolio.

COPIED

Very truly yours,

Robert G. Rouse,
Manager, System Open
Market Account

Enclosure

HMB *[Handwritten signature]*



M. SC. 140A-80M-3-43

RECEIVED IN OFFICE OF THE ASSISTANT TO THE FEDERAL RESERVE BANK OF NEW YORK
 JAN 2 1953

FEDERAL RESERVE BANK OF NEW YORK

SECURITIES DEPARTMENT
 RMB:CS

CHARGE TO "SAE"

JANUARY 2, 1953

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

Readjustment of participations in Government securities held in System Account is being made today as of January 1, 1953 under the procedure for reallocation of Government securities approved by the Federal Open Market Committee December 9, 1947. The computations showing adjustments made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on January 5, 1953. These computations indicate an

INCREASE

DECREASE OF \$ in your participation in interest-bearing obligations and an

INCREASE

DECREASE OF \$ in your participation in Treasury Bills, making a net

INCREASE

DECREASE OF \$ in your total participation in the System Account. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today, as of January 1, 1953.

	<u>INTEREST-BEARING SECURITIES</u>	<u>TREASURY BILLS</u>	<u>TOTAL</u>
ERICKSON, BOSTON	INCREASE \$40,466,000	DECREASE \$40,466,000	0
WILLIAMS, PHILADELPHIA	DECREASE 4,961,000	DECREASE 158,000	DECREASE \$ 5,119,000
GIDNEY, CLEVELAND	DECREASE 62,677,000	DECREASE 1,996,000	DECREASE 64,673,000
LEACH, RICHMOND	INCREASE 90,790,000	INCREASE 2,891,000	INCREASE 93,681,000
BRYAN, ATLANTA	INCREASE 172,473,000	INCREASE 5,494,000	INCREASE 177,967,000
YOUNG, CHICAGO	INCREASE 85,125,000	INCREASE 28,820,000	INCREASE 113,945,000
JOHNS, ST. LOUIS	INCREASE 606,000	INCREASE 19,000	INCREASE 625,000
POWELL, MINNEAPOLIS	DECREASE 13,951,000	INCREASE 199,000	DECREASE 13,792,000
LEEDY, KANSAS CITY	DECREASE 94,703,000	DECREASE 3,016,000	DECREASE 97,719,000
GILBERT, DALLAS	INCREASE 56,947,000	INCREASE 1,814,000	INCREASE 58,761,000
BARHART, SAN FRANCISCO	INCREASE 188,330,000	INCREASE 21,041,000	INCREASE 209,371,000

ROUSE

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1953
(In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Richmond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Estimated expenses and dividends, 1953:													
1. Expenses	114,405	8,515	23,505	6,889	10,538	8,101	7,111	17,452	6,472	3,483	5,569	5,193	11,577
2. Dividends	15,136	814	4,807	1,031	1,452	660	624	1,937	528	332	568	734	1,649
3. Total expenses and dividends	129,541	9,329	28,312	7,920	11,990	8,761	7,735	19,389	7,000	3,815	6,137	5,927	13,226
B. Estimated earnings, 1953, other than on System Account securities	21,030	349	5,391	1,123	1,450	1,004	651	4,003	1,116	426	1,828	688	3,000
C. "A-3" minus "B"	108,511	8,980	22,921	6,797	10,540	7,757	7,084	15,386	5,884	3,389	4,309	5,239	10,221
D. Ratios (per cent) based on "C"	100.0	8.2756	21.1232	6.2639	9.7133	7.1486	6.5284	14.1792	5.4225	3.1232	3.9710	4.8281	9.4231

I. Allocation of Interest-Bearing Securities

E. Allocation of interest-bearing securities on basis of "D"	23,291,362	1,927,500	4,919,881	1,458,948	2,262,360	1,665,006	1,520,553	3,302,529	1,262,974	727,436	924,900	1,124,530	2,194,745
F. Portion that Banks cannot take due to low reserve ratios *	234,488	234,488											
G. Distribution of "F" to Banks with highest reserve ratios	234,488						113,517						120,971
H. Final allocation of interest-bearing securities ("E" minus "F" plus "G")	23,291,362	1,693,012	4,919,881	1,458,948	2,262,360	1,665,006	1,520,553	3,416,046	1,262,974	727,436	924,900	1,124,530	2,315,716
I. Present allocations	23,291,362	1,652,546	5,378,326	1,463,909	2,325,037	1,574,216	1,348,080	3,330,921	1,262,368	741,387	1,019,603	1,067,583	2,127,386
J. Change in allocations	---	+40,466	-458,445	-4,961	-62,677	+90,790	+172,473	+85,125	+606	-13,951	-94,703	+56,947	+188,330

DECLASSIFIED
Authority E.O. 10501

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1953
(In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Richmond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisc.
II. Allocation of Treasury Bills													
K. Allocation of Treasury bills on basis of "D"	741,950	61,401	156,724	46,475	72,068	53,039	48,438	105,202	40,232	23,172	29,463	35,822	69,914
L. Portion that Banks cannot take due to low reserve ratios	61,401	61,401											
M. Distribution of "L" to Banks with highest reserve ratios *	61,401							29,725					31,674
N. Final allocation of Treasury bills ("K" minus "L" plus "M")	741,950	---	156,724	46,475	72,068	53,039	48,438	134,927	40,232	23,172	29,463	35,822	101,594
O. Present allocations	741,950	40,466	171,326	46,633	74,064	50,148	42,944	106,107	40,213	23,013	32,479	34,008	80,544
P. Change in allocations	---	-40,466	-14,602	-158	-1,996	+2,891	+5,494	+28,820	+19	+159	-3,016	+1,814	+21,044
III. Total Allocation of System Account Securities													
Q. Total allocation of System Account ("H" plus "N")	24,033,312	1,693,012	5,076,605	1,505,423	2,334,428	1,718,045	1,568,991	3,550,973	1,303,206	750,608	954,363	1,160,352	2,417,306
R. Present allocations	24,033,312	1,693,012	5,549,652	1,510,542	2,399,101	1,624,364	1,391,024	3,437,028	1,302,581	764,400	1,052,082	1,101,591	2,207,935
S. Change in allocations	---	---	-473,047	-5,119	-64,673	+93,681	+177,967	+113,945	+625	-13,792	-97,719	+58,761	+209,371

* Based on note and deposit liability and reserve figures on December 30, 1952.

DECLASSIFIED
Authority E.O. 10501

FILED IN FILES SECTION
JAN 6 1953
333 318 -

January 2, 1953

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

Enclosed is a statement showing adjustments to be made in allocations of Government securities in the System Open Market Account as of January 1, 1953, prepared in accordance with the procedure approved by the System Open Market Committee December 9, 1947.

The figures shown have been discussed over the telephone by representatives of your office and of this office.

Very truly yours,

R. F. Leonard, Director,
Division of Bank Operations.

Enclosure.

FILE COPY

MD/dlw

REC'D IN FILES SECTION
 JAN 6 1953

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1953
 (In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Richmond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Estimated expenses and dividends, 1953:													
1. Expenses	114,405	8,515	23,505	6,889	10,538	8,101	7,111	17,452	6,472	3,483	5,569	5,193	11,577
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3. Total expenses and dividends	129,541	9,329	28,312	7,920	11,990	8,761	7,735	19,389	7,000	3,815	6,137	5,927	13,226
B. Estimated earnings, 1953, other than on System Account securities	21,030	349	5,391	1,123	1,450	1,004	651	4,003	1,116	426	1,828	688	3,001
C. "A-3" minus "B"	108,511	8,980	22,921	6,797	10,540	7,757	7,084	15,386	5,884	3,389	4,309	5,239	10,225
D. Ratios (per cent) based on "C"	100.0	8.2756	21.1232	6.2639	9.7133	7.1486	6.5284	14.1792	5.4225	3.1232	3.9710	4.8281	9.4230

I. Allocation of Interest-Bearing Securities

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F. Portion that Banks cannot take due to low reserve ratios *	234,488	234,488											
G. Distribution of "F" to Banks with highest reserve ratios	234,488						113,517						120,971
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I. Present allocations	23,291,362	1,652,546	5,378,326	1,463,909	2,325,037	1,574,216	1,348,080	3,330,921	1,262,368	741,387	1,019,603	1,067,583	2,127,386
J. Change in allocations	---	+40,466	-458,445	-4,961	-62,677	+90,790	+172,473	+85,125	+606	-13,951	-94,703	+56,947	+188,330

DECLASSIFIED
 Authority E.O. 10501

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1953
(In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Richmond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
<u>II. Allocation of Treasury Bills</u>													
K. Allocation of Treasury bills on basis of "D"	741,950	61,401	156,724	46,475	72,068	53,039	48,438	105,202	40,232	23,172	29,463	35,822	69,914
L. Portion that Banks cannot take due to low reserve ratios	61,401	61,401											
M. Distribution of "L" to Banks with highest reserve ratios *	61,401							29,725					31,676
N. Final allocation of Treasury bills ("K" minus "L" plus "M")	741,950	---	156,724	46,475	72,068	53,039	48,438	134,927	40,232	23,172	29,463	35,822	101,590
O. Present allocations	741,950	40,466	171,326	46,633	74,064	50,148	42,944	106,107	40,213	23,013	32,479	34,008	80,549
P. Change in allocations	---	-40,466	-14,602	-158	-1,996	+2,891	+5,494	+28,820	+19	+159	-3,016	+1,814	+21,041
<u>III. Total Allocation of System Account Securities</u>													
Q. Total allocation of System Account ("H" plus "N")	24,033,312	1,693,012	5,076,605	1,505,423	2,334,428	1,718,045	1,568,991	3,550,973	1,303,206	750,608	954,363	1,160,352	2,417,306
R. Present allocations	24,033,312	1,693,012	5,549,652	1,510,542	2,399,101	1,624,364	1,391,024	3,437,028	1,302,581	764,400	1,052,082	1,101,591	2,207,935
S. Change in allocations	---	---	-473,047	-5,119	-64,673	+93,681	+177,967	+113,945	+625	-13,792	-97,719	+58,761	+209,371

* Based on note and deposit liability and reserve figures on December 30, 1952.

DECLASSIFIED
Authority E.O. 10501

REC'D IN FILES SECTION
 JAN 2 1953
 273-1

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

January 2, 1953

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:

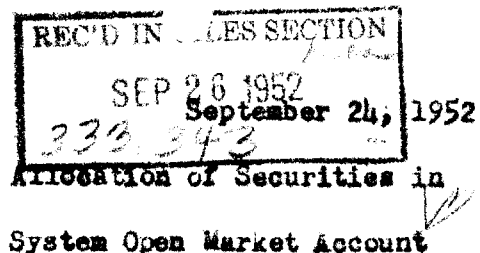
	<u>Interest-bearing securities</u>	<u>Treasury bills</u>	<u>Total</u>
Boston	+ 40,466	-40,466	None
New York	-458,445	-14,602	-473,047
Philadelphia	- 4,961	- 158	- 5,119
Cleveland	- 62,677	- 1,996	- 64,673
Richmond	+ 90,790	+ 2,891	+ 93,681
Atlanta	+172,473	+ 5,494	+177,967
Chicago	+ 85,125	+28,820	+113,945
St. Louis	+ 606	+ 19	+ 625
Minneapolis	- 13,951	+ 159	- 13,792
Kansas City	- 94,703	- 3,016	- 97,719
Dallas	+ 56,947	+ 1,814	+ 58,761
San Francisco	+188,330	+21,041	+209,371

Leonard

FILE COPY

FOR FILES
 DEPT.

MD/dlw
RES



Mr. Leonard

M. B. Daniels

We have made a review of the allocation of securities in the System Open Market Account. Ratios used in the May 1, 1952, reallocation, that is, present participations, are shown below in comparison with expense and dividend ratios based on actual expenses, dividends, and earnings other than from securities in the System Account for the first eight months of 1952.

<u>Federal Reserve Bank</u>	<u>Present participation ratios</u>	<u>Expense and dividend ratios on basis Jan.-Aug. results</u>	<u>Change in participations resulting from May 1 reallocation</u>
Boston	7.0951	7.6540	Increase
New York	23.0915	21.9828	Increase
Philadelphia	6.2852	6.3485	Increase
Cleveland	9.9824	9.4623	Increase
Richmond	6.7588	7.0012	Increase
Atlanta	5.7879	5.8730	Decrease
Chicago	14.3011	14.4581	Decrease
St. Louis	5.4199	5.5221	Decrease
Minneapolis	3.1831	3.2903	Increase
Kansas City	4.3776	4.3930	Decrease
Dallas	4.5836	4.8382	Decrease
San Francisco	9.1338	9.1765	Decrease

Except for Boston, New York, and Cleveland, where the differences in the present participation ratio and the indicated expense and dividend ratio are .56 per cent, 1.11 per cent, and .52 per cent, respectively, the variation between the two ratios does not exceed .25 per cent.

It is not clear, of course, that were a reallocation to be made at this time, we should use actual expenses for eight months rather than the 1952 budgets in estimating expenses for the year. For one thing, unusual expenses for alterations and repairs might be anticipated in the budgets but not yet reflected in actual expenses. Of interest, however, is the fact that if a reallocation were made using the ratios shown in the second column above, Boston and St. Louis, and possibly Minneapolis, would not be able to take much, if any, of their

FILE COPY

Mr. Leonard

- 2 -

increased share of the System Account because their reserve ratios are hovering around the minimum of 30 per cent. (St. Louis' holdings have been reduced on the present basis because of a low reserve ratio. Its reserve ratio last night was 31.6, so that its full participation will probably be restored.)

Furthermore, it would have to be decided, if a reallocation were made, whether corrections should be made for maldistributions of excess earnings from the System Account prior to the date of the reallocation. At the time of the May 1 reallocation, a correction was not taken into consideration. If a reallocation were now made on such a basis, the changes might be different from those indicated by the percentages in the table above.

On the whole, it does not appear that a reallocation is called for. I have discussed this matter with Mr. Behrens of the securities department at the Federal Reserve Bank of New York, who concurs in this view.

September 24, 1952.

NOTE:

Mr. Rouse discussed the allocations with me this afternoon and said the New York Bank had made some independent computations. Mr. Rouse also thought there was no occasion to make reallocations at this time.

R. F. Leonard

MB/dlr


FILE COPY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION
JUL 16 1953
353,343
Date September 24, 1952

Office Correspondence

To Mr. Leonard

Subject: Allocation of Securities in

From M. B. Daniels

System Open Market Account

We have made a review of the allocation of securities in the System Open Market Account. Ratios used in the May 1, 1952, reallocation, that is, present participations, are shown below in comparison with expense and dividend ratios based on actual expenses, dividends, and earnings other than from securities in the System Account for the first eight months of 1952.

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New York	23.0915	21.9828	Increase
Philadelphia	6.2852	6.3485	Increase
Cleveland	9.9824	9.4623	Increase
Richmond	6.7588	7.0012	Increase
Atlanta	5.7879	5.8730	Decrease
Chicago	14.3011	14.4581	Decrease
St. Louis	5.4199	5.5221	Decrease
Minneapolis	3.1831	3.2903	Increase
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FOR FILES
L. B. Smith

Mr. Leonard

- 2 -

increased share of the System Account because their reserve ratios are hovering around the minimum of 30 per cent. (St. Louis' holdings have been reduced on the present basis because of a low reserve ratio. Its reserve ratio last night was 31.6, so that its full participation will probably be restored.)

Furthermore, it would have to be decided, if a reallocation were made, whether corrections should be made for maldistributions of excess earnings from the System Account prior to the date of the reallocation. At the time of the May 1 reallocation, a correction was not taken into consideration. If a reallocation were now made on such a basis, the changes might be different from those indicated by the percentages in the table above.

On the whole, it does not appear that a reallocation is called for. I have discussed this matter with Mr. Behrens of the securities department at the Federal Reserve Bank of New York, who concurs in this view.

M. B. Daniels

September 24, 1952.

NOTE:

M. Daniels and

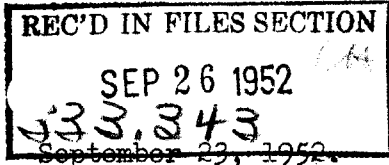
Mr. Rouse discussed the allocations with me this afternoon and said the New York Bank had made some independent computations. Mr. Rouse also thought there was no occasion to make reallocations at this time.

RFL

R. F. Leonard



JUL RFL



To: Mr. Riefler

Open Market Participation in

From: R. F. Leonard

Special Certificates of Indebtedness.

Purpose of Memorandum

At present, special Treasury certificates of indebtedness when issued are carried in the Open Market Account, with resulting participation by all Federal Reserve Banks.

The procedure whereby these certificates (which are carried only on a few occasions during the year and only for a few days at a time) are allocated to the several Federal Reserve Banks, involves considerable bookkeeping and considerable exchange of telegrams between the Manager of the Open Market Account and the individual Reserve Banks. It also results in complications when the certificates are carried over Saturdays and holidays when some Reserve Banks are closed and others open and the Treasury wishes to make payments on the certificates.

The purpose of this memorandum is to suggest that consideration be given to having the certificates carried by the Federal Reserve Bank of New York for its own account instead of being held in the Open Market Account, with the accompanying need for allocations of holdings and earnings.

Comments

Earnings on the special certificates at the rate of 1/4 per cent per annum are small, and the amount retained after allowance for the 90 per cent payment to the Treasury is relatively insignificant. Total earnings on the certificates for the year 1951 amounted to \$4,000. Earnings for the current year through September 22 amount to \$49,000. Data regarding the extent of the holdings of certificates during the past year and the current year are shown on the following page.

To meet situations which might arise when the Open Market Account holds special certificates and some Banks are open on Saturdays, while most are closed, the Open Market Committee on June 19, 1952, approved procedures whereby the Open Market Account might sell the special certificates to a Reserve Bank or Banks which would be open on Saturdays and repurchase any balances on Mondays.

A simpler procedure, and one which would also simplify to some extent the handling of the certificates whenever held, would be to have the certificates carried by the Federal Reserve Bank of New York for its own account rather than by the Open Market Account. If such an arrangement were authorized, it is suggested that the Reserve Bank of New York be given discretion to issue participations to one or more Federal Reserve Banks in case the certificate were so large it would seem desirable to do so.

*File copy filed
Fona - FRB New York
Special Certificates of Indebtedness*

To: Mr. Riefler

- 2 -

As stated, the earnings at present on the special certificates are relatively small. Moreover, the proposed procedure should not affect significantly the earnings position of any Reserve Bank. Under the present formula, participations in the Open Market Account are made on the basis of estimated expense and dividend requirements of the respective Banks after allowance for estimated earnings from sources other than the Open Market Account. Under the proposed procedure, allowance would be made for estimated earnings on special certificates as well as for other types of earnings outside the Open Market Account.

If approved, this procedure would, of course, be subject to review and change at any time.

SPECIAL CERTIFICATES OF INDEBTEDNESS

	<u>1951</u>	1-1-52 to <u>9-22-52</u>
Number of periods special certificates were held	2	4
Total number of days special certificates were held	4	30
Average holdings for days held	\$155,000,000	\$236,067,000
Maximum amount held	\$320,000,000	\$311,000,000
Minimum amount held	\$100,000,000	\$6,000,000
Earnings on holdings @ 1/4%	\$4,000	\$49,000

Division of Bank Operations
September 23, 1952

~~Mr. Davis~~
~~Mr. [unclear]~~

REC'D IN FILES SECTION
MAY 19 1952
333.343

FEDERAL RESERVE BANK
OF NEW YORK

Y

NEW YORK 45, N. Y.

May 12, 1952

Mr. R. F. Leonard, Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Bob:

For your information I am enclosing copies of our letter to
Mr. Earhart dated May 5, 1952, and his reply dated May 9, with respect
to Mr. Lowry's memorandum dated February 19, 1952. | *See letter 4-3-52*

Very truly yours,

Bob

Robert G. Rouse,
Vice President.

Enclosures (2)

4-3-52

MISC. 140A

C O P Y

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, NEW YORK

May 5, 1952

Mr. C. E. Barhart, President,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Barhart:

There is enclosed the following memoranda and correspondence with respect to Mr. Lowry's memorandum dated February 19, 1952 on a proposed revision of the formula for allocation of securities held in System Open Market Account:

1. Comments prepared in the Securities Department of this bank, dated April 2, 1952.
2. Memorandum on The "Investable Funds" of the Federal Reserve Banks prepared by Mr. Rosa, Manager of the Research Department of this Bank, dated April 7, 1952.
3. Letter from Mr. Leonard, Director of Division of Bank Operations of the Board of Governors, dated May 2, 1952.
4. Memorandum to Mr. Leonard from Mr. Daniels of the Division of Bank Operations of the Board of Governors, dated April 30, 1952.

Mr. Rouse had intended to send you a note with this material today but he asked me to write you since he had to leave for Chicago and was unable to get to it.

We agree with Mr. Leonard's comments in the last paragraph of his letter to Mr. Rouse since we feel that Mr. Lowry's consideration of the subject is certainly commendable. It is a timely and interesting subject on which other ideas have been introduced which we believe do not lose sight of the objective toward which Mr. Lowry was aiming.

We hope you will find the enclosed data of interest in your consideration of the matter.

Very truly yours,

S. A. Miller,
Assistant Vice President.

SAM:fd
Enclosures

RECORD IN FILES SECTION
MAY 19 1952

FEDERAL RESERVE BANK OF SAN FRANCISCO

SAN FRANCISCO 20, CALIFORNIA

May 9, 1952

Mr. S. A. Miller,
Assistant Vice President,
Federal Reserve Bank of New York,
New York 45, N. Y.

Dear Mr. Miller:

Your letter of May 5 has been received, together with ^{filed} enclosures commenting on Mr. Lowry's memorandum dated ~~May 19~~, 1952, with respect to a formula for allocating securities held in the System Open Market Account.

As you undoubtedly know, I handed Mr. Lowry's memorandum to Mr. Rouse informally, indicating that it was something which might be given thought at some later time when the question of revising the present allocation might come up for reconsideration. I had not expected immediate attention, but, nevertheless, I am pleased that Mr. Lowry's suggestions have been explored.

I note that the attention given will presumably lead to consideration at the end of the year of an arrangement for the Federal Reserve Banks of Dallas and San Francisco to set aside from earnings an amount sufficient to build up surplus to 100% of subscribed capital before payment of 90% to the Treasury. I would favor this and would feel that the principal objective of Mr. Lowry's proposal for changing the allocation formula would be attained.

Please tell Bob Rouse that we appreciate the consideration all of you have given the suggestion.

Very truly yours,

C. E. Earhart,
President.

the above

FEDERAL RESERVE BANK
OF NEW YORK

RECORDS SECTION
MAY 13 1952
Howe

Howe
General

NEW YORK 45, N. Y.

May 5, 1952.

10

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

Dear Mr. Riefler:

I am enclosing herewith a copy of the computation showing the changes made on May 1, 1952 in participations in the System Open Market Account, pursuant to the procedure approved at the meeting of the Federal Open Market Committee on December 9, 1947.

Also enclosed herewith is a copy of the April 30, 1952 telegram which was sent to each of the Reserve Banks and a copy of the letter of transmittal which was sent with a copy of the computation.

Very truly yours,

Robert G. Rouse

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

Enclosures (3)

Copy filed
333.343

James Siles
J

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, MAY 1, 1952

(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 expenses and dividends, 1952:													
1. Expenses	104,957	7,349	22,646	6,414	10,117	7,329	6,195	15,860	5,877	3,347	4,941	4,601	10,281
2. Dividends	14,522	788	4,585	1,017	1,381	653	600	1,871	509	326	551	699	1,562
3. Total expenses and dividends	119,479	8,137	27,231	7,431	11,498	7,982	6,795	17,731	6,386	3,673	5,492	5,300	11,843
B. Estimated earnings, 1952, other than on System Account securities	5,879	77	999	291	158	284	220	1,485	229	57	519	93	1,467
C. "A-3" minus "B"	113,600	8,060	26,232	7,140	11,340	7,678	6,575	16,246	6,157	3,616	4,973	5,207	10,376
D. Ratios (per cent) based on "C"	100.0	7.0951	23.0915	6.2852	9.9824	6.7588	5.7879	14.3011	5.4199	3.1831	4.3776	4.5836	9.1338
E. Allocation of System Account securities on basis of "D"	22,363,202	1,586,692	5,163,999	1,405,572	2,232,384	1,511,484	1,294,360	3,198,184	1,212,063	711,843	978,971	1,025,040	2,042,610
F. Present allocations	22,363,202	1,516,069	4,814,149	1,373,235	2,229,566	1,494,510	1,314,755	3,454,444	1,227,874	711,172	1,075,513	1,056,818	2,095,097
G. Change in allocations	-	+70,623	+349,850	+32,337	+2,818	+16,974	-20,395	-256,260	-15,811	+671	-96,542	-31,778	-92,487

DECLASSIFIED
Authority: 10501

Mr. Leonard
Mr. DeLoach
files

FEDERAL RESERVE BANK
OF NEW YORK

REC'D IN FILES SECTION
MAY 7 1952
333,343
NEW YORK 45, N. Y.

May 5, 1952

Mr. Robert F. Leonard
Director, Division of Bank
Operations
Board of Governors of the
Federal Reserve System
Washington 25, D.C.

Dear Mr. Leonard:

We received your letter of May 1, 1952 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on May 1, 1952, pursuant to the procedure approved at the meeting of the Federal Open Market Committee on December 9, 1947.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on April 30, 1952.

Very truly yours,

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

1 copy deleted RFL
1 copy " " MJD

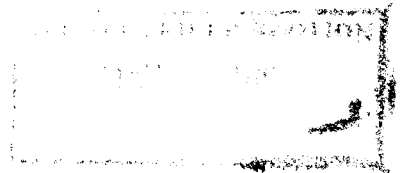
Enclosures (5)

FOR FILES
D. L. Werner

MISC. 140A

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, NEW YORK



May 5, 1952

C
O
P
Y

Mr. Joseph A. Erickson
President, Federal Reserve Bank
of Boston
Boston, Massachusetts

Dear Mr. Erickson:

In accordance with our telegram of April 30, 1952, I en-
close herewith computation of the readjustments made on May 1, 1952
in the participations of the Federal Reserve Banks in the System
Open Market portfolio.

Very truly yours,

Robert G. Rouse
Manager, System Open Market Account.

Enclosure

RKJ:hmb

FOR FILES
D. L. Werner

MISC. 140A
 SECURITIES DEPARTMENT
 SAN:fd

FEDERAL RESERVE BANK OF NEW YORK
 CHANGE TO "SAE"

RECEIVED
 APRIL 30, 1952
 NEW YORK 45, NEW YORK

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

A review of estimated earnings and expenses for this calendar year indicates the desirability of a reallocation of Government securities held in the System Open Market Account under current formula approved by the Federal Open Market Committee at its meeting December 9, 1947. Therefore, a reallocation will be made tomorrow, May 1, which will result in an ^{increase} _{decrease} of \$ _____ in your participation. Your bank will receive the usual coded wire on May 1 showing the detailed entries to be made.

A statement showing adjustments made in participations will be mailed to all Reserve Banks within a few days. Further reallocations will be considered later this year if periodic reviews indicate any substantial divergence from present estimates.

ERICKSON, BOSTON	INCREASE	\$ 70,623,000
WILLIAMS, PHILADELPHIA	INCREASE	32,337,000
GIDNEY, CLEVELAND	INCREASE	2,812,000
LEACH, RICHMOND	INCREASE	16,974,000
BRYAN, ATLANTA	DECREASE	20,395,000
YOUNG, CHICAGO	DECREASE	256,260,000
JOHNS, ST. LOUIS	DECREASE	15,811,000
PEYTON, MINNEAPOLIS	INCREASE	671,000
LEEDY, KANSAS CITY	DECREASE	96,542,000
GILBERT, DALLAS	DECREASE	31,778,000
KARLHART, SAN FRANCISCO	DECREASE	52,487,000

PORE FILMS
 D. L. Werner

C
 P
 Y

INTELLIGENCE SECTION
MAY 1 1952

PAGE 2

Primary reasons for above reallocation at this time is divergence due to (1) allocation as of January 1, 1952 having been based on budgets of gross expenses before allowing for reimbursements (2) additions to New York net budget of \$753,000 as accepted by Board April 14, 1952. In reallocation estimates on experience of the first quarter of 1952 rather than on prior periods have been used for earnings other than on Open Market Account and for accrued dividends.

ROUSE

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, MAY 1, 1952

(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 expenses and dividends, 1952:													
1. Expenses	104,957	7,349	22,646	6,414	10,117	7,329	6,195	15,860	5,877	3,347	4,941	4,601	10,281
2. Dividends	14,522	788	4,585	1,017	1,381	633	600	1,871	509	326	551	699	1,562
3. Total expenses and dividends	119,479	8,137	27,231	7,431	11,498	7,962	6,795	17,731	6,386	3,673	5,492	5,300	11,843
B. Estimated earnings, 1952, other than on System Account securities	5,879	77	999	291	158	284	220	1,485	229	57	519	93	1,467
C. "A-3" minus "B"	113,600	8,060	26,232	7,140	11,340	7,678	6,575	16,246	6,157	3,616	4,973	5,207	10,376
D. Ratios (per cent) based on "C"	100.0	7.0951	23.0915	6.2852	9.9824	6.7588	5.7879	14.3011	5.4199	3.1831	4.3776	4.5836	9.1338
F. Allocation of System Account securities on basis of "D"	22,363,202	1,586,692	5,163,999	1,405,572	2,232,384	1,511,484	1,294,360	3,198,184	1,212,063	711,843	978,971	1,025,440	2,442,610
F. Present allocations	22,363,202	1,516,069	4,814,149	1,373,235	2,229,566	1,494,510	1,314,755	3,454,444	1,227,874	711,172	1,075,513	1,056,818	2,095,097
G. Change in allocations	-	+70,623	+349,850	+32,337	+2,818	+16,974	-20,395	-256,260	-15,811	+671	-96,542	-31,778	-52,487

FOR FILES
D. L. Werner

REC'D IN FILES SECTION
MAY 6 1952
333,873

May 2, 1952.

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 15, N. Y.

Dear Bob:

I am returning the following memoranda regarding a proposed revision of formula for securities in the System Open Market Account, which you left with me for comment:

Memorandum dated February 19 from Mr. Lowry of the Federal Reserve Bank of San Francisco.

Memoranda dated April 2 and April 7 prepared in your Bank, commenting on Mr. Lowry's memorandum.

See Letter from Rouse filed 4/3/52

I am also enclosing a memorandum dated April 30 from Mr. Daniels commenting on the proposal.

I concur with the points of view expressed in the two memoranda prepared at your Bank and in Mr. Daniels' memorandum. I might add a few observations of my own, which to some extent duplicate comments made in the other memoranda.

As mentioned in our earlier conversation, I think it would be quite unfortunate to accept the thesis that deposits with the Federal Reserve Banks and outstanding Federal Reserve notes represent sources of investable funds which are then used by the Federal Reserve Banks to purchase securities.

Mr. Lowry refers to the variations in the percentage of surplus to capital. An attempt to equalize these ratios through allocations or participations would require very large shifts of securities in view of the fact that only 10 per cent of the net earnings of the Banks after dividends are available for surplus. Two Banks, Dallas and San Francisco, have surplus less than 100 per cent of their subscribed capital. It is noted from Table 6 of the memorandum that the formula proposed would have resulted in a decrease in the earnings for Dallas in 1950, the Bank with the lowest percentage of surplus to capital.

Again as I mentioned in our earlier conversation, I think the surplus situation at Dallas and San Francisco might be corrected by

FILE COPY

Mr. Robert G. Rouse

- 2 -

providing larger retention of earnings at those two Banks at the end of the year. The law regarding the franchise tax, before its repeal, allowed Banks to retain all earnings until the surplus was built up to an amount equal to 100 per cent of the subscribed capital. The public statement regarding the institution of the payment of interest on Federal Reserve notes referred specifically to this provision and stated that at the end of 1946 each Bank had surplus equal to, or greater than, twice the amount of paid-in capital. Accordingly, I think consideration might well be given to arranging at the end of the year that the Federal Reserve Banks of Dallas and San Francisco set aside from earnings an amount sufficient to build up surplus to 100 per cent of subscribed capital, and that the 90 per cent interest payment be figured on the balance. I have in mind making such a recommendation unless further analysis should show it to be unsound.

In the discussions related to in Table 5, reference is made to percentage of capital surplus and reserves to deposits. With the free flow of liabilities between member bank reserve accounts, U. S. Treasurer's General Account, and Federal Reserve notes, it would seem to me that the ratio of capital accounts to total deposits and note liabilities would be more significant than the ratio to member bank reserve accounts.

A minor point -- the last paragraph on page 9 states that at the present rate of surplus accumulation, and under the present allocation formula, the combined surplus accounts of the Federal Reserve Banks would equal 300 per cent of paid-in capital in about six years. The present allocation formula affects the rates at which individual Banks might achieve that goal, but I do not see what bearing the present allocation formula would have upon the rate of increase in the combined surplus accounts.

I do not want to pass on these comments without saying I think Mr. Lowry has shown real initiative in considering the question and in preparing his memorandum. Certainly the allocation of securities in the Open Market Account is a matter of real importance and analysis of the problems and suggestions as to reallocations are always in order.

Sincerely,

R. F. Leonard, Director,
Division of Bank Operations.

Enclosures

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May 1, 1952

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Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

There is enclosed a statement showing adjustments in allocations of Government securities in the System Open Market Account necessary to give effect to the reallocation today. This was prepared in accordance with our memorandum of April 29, 1952, to the Executive Committee of the Open Market Committee.

The figures shown in the statement have been discussed over the telephone by representatives of your office and of this office.

Very truly yours,

R. F. Leonard, Director,
Division of Bank Operations.

Attachment

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REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, MAY 1, 1952

(In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Estimated expenses and dividends, 1952:													
1. Expenses	104,957	7,349	22,646	6,414	10,117	7,329	6,195	15,860	5,877	3,347	4,941	4,601	10,281
2. Dividends	14,522	788	4,585	1,017	1,381	633	600	1,871	509	326	551	699	1,562
3. Total expenses and dividends	119,479	8,137	27,231	7,431	11,498	7,962	6,795	17,731	6,386	3,673	5,492	5,300	11,843
B. Estimated earnings, 1952, other than on System Account securities	5,879	77	999	291	158	284	220	1,485	229	57	519	93	1,467
C. "A-3" minus "B"	113,600	8,060	26,232	7,140	11,340	7,678	6,575	16,246	6,157	3,616	4,973	5,207	10,376
D. Ratios (per cent) based on "C"	100.0	7.0951	23.0915	6.2852	9.9824	6.7588	5.7879	14.3011	5.4199	3.1831	4.3776	4.5836	9.1338
E. Allocation of System Account securities on basis of "D"	22,363,202	1,586,692	5,163,999	1,405,572	2,232,384	1,511,484	1,294,360	3,198,184	1,212,063	711,843	978,971	1,025,040	2,042,610
F. Present allocations	22,363,202	1,516,069	4,814,149	1,373,235	2,229,566	1,494,510	1,314,755	3,454,444	1,227,874	711,172	1,075,513	1,056,818	2,095,097
G. Change in allocations	-	+70,623	+349,850	+32,337	+2,818	+16,974	-20,395	-256,260	-15,811	+671	-96,542	-31,778	-52,487

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Authority E.O. 10501

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

RECORD IN FILES SECTION
MAY 1 1952

May 1, 1952

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:

Boston	+70,623
New York	+349,850
Philadelphia	+32,337
Cleveland	+2,818
Richmond	+16,974
Atlanta	-20,395
Chicago	-256,260
St. Louis	-15,811
Minneapolis	+671
Kansas City	-96,542
Dallas	-31,778
San Francisco	-52,487

Leonard

FILE COPY

FOR FILES
D. L. Werner

REC'D IN FILES SECTION
 MAY 2 1952
 333.343

April 30, 1952

Mr. Leonard

Comments on Proposed Revision
 of Formula for Allocation of
 System Open Market Account

M. B. Daniels

Because earnings on the System Account are now far in excess of expense and dividend requirements, any suggestion that the account, or at least part of it, be allocated on some special-purpose basis is a natural one. At various times in the past that portion of the account producing "excess earnings" over expense and dividend requirements has been so allocated (usually earnings other than on securities in the System Account have been deducted in estimating requirements for expenses). For example, for a number of years prior to adoption of the present formula securities not needed to provide for expenses and dividends were allocated on the basis of average participations in the account over a previous period—five years under the immediately preceding formula. Another method (used prior to 1941) was to allocate all securities not needed to cover expenses on the basis of dividend requirements.

Consequently, Mr. Lowry's proposal deserves careful consideration. The flaws in his premise that the Banks' liabilities represent the principal source of their "investable funds" are effectively presented in the two memorandums prepared at the New York Bank and need not be discussed here.

The formula suggested—that participations in the account be determined according to the percentage each Bank's daily average Federal Reserve notes in circulation, plus member bank reserve balances, bears to daily average note and member bank reserve balances of the System, computed weekly—is said by Mr. Lowry to have been devised with the primary objectives of tending to equalize the reserve ratios and providing adequate earnings without unreasonable surplus accumulations. Allocation of securities so that the reserve ratios are more nearly equal has often been proposed in the past. Under the proposed formula it would be a by-product, however, resulting from the fact that ability to carry securities lies in the relationship of reserves to note and deposit liabilities.

As Mr. Lowry's discussion of the "adequacy of the proposed method with respect to expense and dividend requirements" shows, the rate of earnings and the size of the System Account are such that a minor portion produces sufficient earnings to cover expenses and dividends. The proposed formula, or any formula which does not give consideration to expense and dividend requirements, would be satisfactory only so long as "excess" earnings exist. Mr. Lowry recognizes this, and states that it appears unlikely the other situation would

* See Letter from
 Cause 4/3/52

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Mr. Leonard

- 2 -

develop, noting that if the average rate of earnings should decline to $3/4$ per cent, holdings could decline to 18 billion dollars a year and yet provide adequate earnings to cover expenses and dividends. In the event excess earnings disappeared, however, Mr. Lowry proposes an arrangement whereby adjustments would be made in holdings so that Banks whose estimated earnings were insufficient to cover expenses, dividends, and losses on securities would be allotted securities with higher yields. This would be an awkward procedure, as is pointed out in New York's memorandum.

In discussing the effect of the proposed formula on surplus accumulations, comparisons are shown of the Banks' surplus to paid-in capital and of their capital accounts to member bank deposits. (A more significant comparison than the latter would be capital accounts to total liabilities.) It is noted that two of the Banks with relatively low surplus accounts under either of these methods of comparison-- Kansas City and Dallas--would lose securities under the proposed formula and hence would be worse off as to building up their surplus accounts. Indeed, the comparisons point up an important weakness in the proposed allocation procedure, namely, that the distribution of liabilities among the Reserve Banks is not the best measure of their need for earnings and their ability to undertake market risk, nor is it necessarily a good indication of a desirable distribution of their surplus. Note, for example, the difference in rank of the Philadelphia, Cleveland, and Chicago Banks in the two comparisons. Philadelphia and Cleveland are sixth and ninth, respectively, in rank of surplus to capital paid in, while they are first and third in rank of capital accounts to member bank deposits. Chicago, on the other hand, is third in rank of surplus to capital and eighth in capital accounts to member bank deposits.

One of the principal advantages, possibly the most important one, of the present formula is its simplicity. It involves the computation of only one set of ratios, which are used both for allocating total holdings in the System Account and for allocating sales and purchases of securities. The only exception is when adjustments to maintain the minimum reserve ratio are necessary. (This minimum ratio is now 30 per cent, and no adjustments to maintain it have been necessary so far this year.) The proposed formula appears to call for a reallocation each week. Even if this is not the intention, and monthly or quarterly reallocations were made, the procedure would probably result in increasing the accounting work beyond what it was before the present formula was adopted. At best, accounting for the System Open Market Account involves a vast number of computations, and the burden of this work should not be increased unless clear benefits are to be derived from any change.



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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

REC'D IN FILES SECTION

MAY 6 1952

Office Correspondence

Date April 30, 1952To Mr. LeonardSubject: Comments on Proposed Revision
of Formula for Allocation of
System Open Market AccountFrom M. B. Daniels

Because earnings on the System Account are now far in excess of expense and dividend requirements, any suggestion that the account, or at least part of it, be allocated on some special-purpose basis is a natural one. At various times in the past that portion of the account producing "excess earnings" over expense and dividend requirements has been so allocated (usually earnings other than on securities in the System Account have been deducted in estimating requirements for expenses). For example, for a number of years prior to adoption of the present formula securities not needed to provide for expenses and dividends were allocated on the basis of average participations in the account over a previous period—five years under the immediately preceding formula. Another method (used prior to 1941) was to allocate all securities not needed to cover expenses on the basis of dividend requirements.

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Mr. Leonard

- 2 -

develop, noting that if the average rate of earnings should decline to $3/4$ per cent, holdings could decline to 18 billion dollars a year and yet provide adequate earnings to cover expenses and dividends. In the event excess earnings disappeared, however, Mr. Lowry proposes an arrangement whereby adjustments would be made in holdings so that Banks whose estimated earnings were insufficient to cover expenses, dividends, and losses on securities would be allotted securities with higher yields. This would be an awkward procedure, as is pointed out in New York's memorandum.

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M. B. Daniels

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April 30, 1952.

FILES

R. F. Leonard

**Reallocation - System Open
Market Account -
May 1, 1952.**

I called New York yesterday afternoon and asked for the amount of the earnings after amortization of premium and discount on the Open Market Account for the following years. Mr. Larson gave me the following figures:

1947	\$142,131,718
1951	388,448,911

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CLASSIFICATION
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April 29, 1952.

Dear Bob:

Enclosed is a copy of the memoran- 4/29/52
dum about reallocation which I read to you
over the telephone this afternoon.

I am giving copies to Win Riefler
as Secretary to the Executive Committee.

Sincerely,

R. F. Leonard, Director,
Division of Bank Operations.

Enclosure

Mr. R. G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, N. Y.

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APR 29 1952

TO: Executive Committee of the
Open Market Committee

FROM: Messrs. Rouse and Leonard

SUBJECT: Reallocation of the
Open Market Account

A review of the situation indicates the desirability of a reallocation of the Open Market Account under the established formula. This is to advise the Executive Committee, therefore, that a reallocation will be made as of May 1. The reallocation will be based on established procedure and will reflect:

1. Net budget expenses for the year after allowance for reimbursable expenses. (This had been the practice, but the reallocation as of January 1, 1952 was based on budgets of gross expenses before allowance for reimbursements.)
2. Addition of \$753,000 to the New York net budget, as accepted by the Board April 14, 1952.
3. Estimates based on experience of the first quarter of 1952 rather than on prior periods for earnings other than on Open Market Account and for accrued dividends.

Reallocations on such basis will result in shifts of approximately \$473,000,000, six Banks will receive additional allocations and six Banks will receive reduced allocations.

If a reallocation were made giving effect to the use of net budgets and estimates made January 1 covering dividends and earnings from other than System Account, the shifts would amount to approximately \$236,000,000.

Attached is a tabulation showing the changes in the percentage allocations and the amount of the change for each Reserve Bank based on holdings as of April 23, 1952. Actual reallocations will, however, be based on holdings at the opening of business May 1.

Mr. Rouse will advise the Reserve Banks of the reallocations in the usual course.

In accordance with the customary procedure, securities in the Open Market Account were reallocated as of January 1, 1952, under the formula adopted by the Open Market Committee at its meeting December 9, 1947, and

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approved in more detail as set forth in a report from Messrs. Rouse and Sneed at the meeting of the Executive Committee January 20, 1948. That procedure provides for allocations prorated on the basis of estimated expenses and dividends for the year, less estimated earnings other than from Open Market Account.

In their report Messrs. Rouse and Sneed stated that it appeared there would be no need of further reallocation of securities during the calendar year 1948 unless it should become evident either that actual expenses and dividends were likely to deviate considerably from the estimates used or that earnings other than from the System Account were likely to be considerably greater than estimated. Since January 1, 1948 reallocations have been made only once each year, as of January 1.

Since 1947 earnings on the Open Market Account have tripled. In 1947 they amounted to \$142 million, in 1951 to \$388 million, and they are now running at the rate of \$425 million a year. Deviations between estimates and actual experience, therefore, are more important in relation to retained earnings than formerly.

The actual experience of the Reserve Banks will be reviewed quarterly and reallocations made in case of substantial divergence from the estimates.

KL:js

Changes in Participation in System Open Market Account
As a Result of Reallocation to be Made as of May 1, 1952

The ratios shown are the present ratios and the new ratios to become effective upon reallocation.


The changes in the amounts of participations are based upon total holdings in the account as of April 23. The actual reallocation, however, will be made on the basis of holdings on May 1.

	<u>Present Participation Ratios</u> (per cent)	<u>New Participation Ratios</u>	<u>Increase in Participation</u> (thousands of dollars)	<u>Decrease in Participation</u> (thousands of dollars)
Boston	6.7793	7.0951	70,651	
New York	21.5271	23.0915	349,991	
Philadelphia	6.1406	6.2852	32,350	
Cleveland	9.9698	9.9824	2,819	
Richmond	6.6829	6.7588	16,980	
Atlanta	5.8791	5.7879		20,403
Chicago	15.1470	14.3011		256,363
St. Louis	5.4906	5.4199		15,817
Minneapolis	3.1801	3.1831	672	
Kansas City	4.8093	4.3776		96,581
Dallas	4.7257	4.5836		31,791
San Francisco	9.3685	9.1338		52,508
Total	100.0	100.0	473,463	473,463

April 24, 1952

Mr. Leonard

M. B. Daniels



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Mr. Rouse telephoned April 22 and said that he had looked at the minutes of Open Market Committee and Executive Committee meetings and felt that it would be necessary only to inform the Executive Committee of a reallocation. Such notice, which would also go to the Presidents, would be to the effect that owing to divergences between estimates used for the January 1 allocation and actual experience since, Mr. Rouse and Mr. Leonard had concluded that a reallocation as of May 1 should be made, and that the New York Bank would advise the Banks of the changes due to the reallocation. *See letter to Rouse 1/2/52*

I told Mr. Carpenter about the proposed reallocation and requested him to let us know whether he agreed with Mr. Rouse that approval of the Executive Committee would not be necessary. He called later and said that all the minutes showed was that the procedure was approved. It contemplated that if reallocations within the year were called for they would be made.

There is attached a draft of a memorandum, *with orig* you and Mr. Rouse might use.

Attachment


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FOR: FILES
 D. L. Werner

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April 4, 1952

Mr. Leonard

Reallocation of Securities in

M. B. Daniels

System Open Market Account

In connection with System account reallocations, the following comments may be of interest.

The present formula for allocation of securities in the System account as recommended by Messrs. Smead and Rouse was adopted by the System Open Market Committee December 9, 1947, for use January 1, 1948, with the understanding that details would be worked out and a full written statement of the procedure submitted at the next meeting of the executive committee and the Federal Open Market Committee for ratification.

The executive committee approved the procedure January 20, 1948, on the basis of a report from Messrs. Smead and Rouse dated January 19, 1948. The formula has been reaffirmed by the Open Market Committee March 1, 1950; March 8, 1951, at which time the minimum reserve ratio to be maintained was reduced from 35 to 30 per cent; and March 1, 1952.

There follows an excerpt from the minutes of the Federal Open Market Committee meeting held March 1, 1952, with respect to the formula:

In a discussion of the procedure for the allocation of securities in the System open market account as approved at the meeting of the Committee on March 8, 1951, it was stated that the existing procedure was working satisfactorily, that there had been no suggestions for change, and that in the absence of objections it should be continued without amendment at this time.

Thereupon, upon motion duly made and seconded, and by unanimous vote, it was agreed that no change should be made at this time in the method of allocating securities as approved at the meeting of the Federal Open Market Committee on March 8, 1951.

Computations for the reallocation are made independently by the Government Bond Department of the New York Reserve Bank and the Board's Division of Operations. We give New York the estimated expenses of the Federal Reserve Banks based on their budgets. Other basic data needed for the computations are in statements published

Banks

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FOR FILES
D. L. Werner

Mr. Leonard

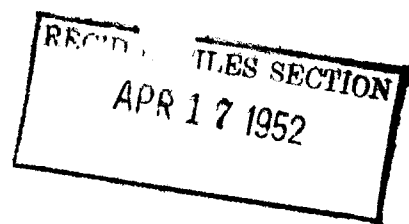
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or distributed by the Board (paid-in capital stock from the weekly condition statement of the Reserve Banks and earnings other than on Government securities from the monthly mimeographed statement of earnings and expenses, L.4.1). The New York Bank gives us figures for the present participations in the account. When the reallocation has been completed and checked between New York and us over the telephone, the results are telegraphed to Mr. Rouse, who then notifies the Reserve Banks of the changes in their participations as a result of the reallocation. The statement, "Reallocation of Government Securities in the System Open Market Account", is mailed to Mr. Rouse and he sends copies to the Reserve Banks.

The weekly and month-end adjustments in holdings of Treasury bills, or in interest-bearing securities if Treasury bill holdings are insufficient, are based on gold certificate reserves and liabilities on Tuesday and the next to the last business day of the month, respectively. Gold certificate reserves and liabilities of the Reserve Banks used for the annual reallocation of January 1 are those for the next to the last business day of the year after giving effect to any necessary month-end adjustment in Treasury bill holdings. No weekly or month-end adjustments of holdings of securities have been necessary so far this year for the purpose of maintaining the minimum reserve ratio of 30 per cent.

During the course of the year the New York Bank and the Division of Bank Operations make independent reviews of the operation of the formula to see whether further reallocation for the year would be in order. The last review in 1951 (in November) showed that the expense and dividend ratios used for the January 1 reallocation did not differ for any Bank by more than .43 per cent from similar expense and dividend ratios based on actual expenses, dividends, and earnings other than on Government securities.

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Statement submitted to the Joint Committee on the Economic Report November 23, 1949, in form approved by the Board of Governors and the Executive Committee of the Federal Open Market Committee.

Formula for Allocation of Securities
in the System Open Market Account

Securities in the System Open Market Account are allocated by the Federal Open Market Committee among the individual Federal Reserve Banks on the basis of their expense and dividend requirements. The formula is based on estimates for the year of each Federal Reserve Bank's expenses, dividends, and earnings from sources other than securities in the System Open Market Account. Ratios of the estimates for each Federal Reserve Bank to those for the twelve Federal Reserve Banks combined are then computed and securities in the System Open Market Account are allocated on the basis of these ratios.

Adjustments may be made in the allocations from time to time if the reserve position of a particular Federal Reserve Bank indicates that an adjustment is desirable or if the allocations on the basis of the original estimates are no longer appropriate.

NOTE: Estimates referred to in the second sentence are based on (1) budgets for expenses, (2) latest paid-in capital stock for dividends, and (3) preceding five months' results for "Other" earnings.

FOR FILES
D. L. Werner

REPORT TO FEDERAL OPEN MARKET COMMITTEE ON NEW FORMULA FOR
ALLOCATING SECURITIES IN THE SYSTEM OPEN MARKET ACCOUNT

At the meeting of the Federal Open Market Committee in Washington on Tuesday, December 9, 1947, the Committee voted unanimously:

1. That interest bearing securities in the Account be allocated at the first of the year on the basis of the expense and dividend ratio of each Bank as against all the Banks; that this allocation be the only one for the year; and that the same basis of allocation continue in use. However, profits and losses on interest bearing securities would continue to be allocated on the basis of the average holding ratio for the preceding five years.
2. Holdings of Treasury bills would likewise be allocated on the expense and dividend ratios to the extent that the several Reserve Banks were able to acquire such securities within the limits of maintaining the reserve ratio of 35 per cent or such other percentage as the Committee may determine. Profit and loss on Treasury bills would be allocated on the basis of the current Treasury bill holding ratio of each Bank as of the day profit or loss is realized.

The above action was taken with the understanding that

1. The complete details would be worked out and the changed procedure would be put into effect on January 1, 1948, and
2. A full written statement of the procedure would be submitted at the next meeting of the Executive Committee and the Federal Open Market Committee for ratification.

In accordance with the above-mentioned action of the Federal Open Market Committee interest bearing securities in the System Open Market Account were allocated among the various Federal Reserve Banks as of January 1 in proportion to estimated expenses and dividends for the calendar year 1948 after deducting estimated earnings other than from Government securities, and Treasury bills in the System Account were likewise allocated except that necessary adjustments were made in the allocation of Treasury bills to prevent the reserve ratio of any Federal Reserve Bank from falling below 35 per cent. Estimated expenses were based on budget figures submitted by the various Federal Reserve Banks to the Board of Governors for the year 1948, and estimated dividends were based on paid-in capital as of the latest date for which the figures were available.

FOR FILE
D. L. Werner

- 2 -

Adjustments in holdings of the Federal Reserve Banks in interest bearing securities and Treasury bills made necessary by changes in the amount of securities held in the System Open Market Account are made currently in the same ratio as was the allocation of interest bearing securities as of January 1. Adjustments in Treasury bill holdings are being made each Wednesday and are to be made also on month ends, as has been the practice for some time, to raise to the agreed upon minimum of 35 per cent the reserve ratios of any Banks that are below that level and also to restore, in so far as possible without reducing a Bank's reserve ratio below 35 per cent, the full participation in Treasury bills to which it is entitled when its participation has previously been reduced because of a low reserve ratio.

In accordance with the arrangement approved by the Federal Open Market Committee, profits and losses on interest bearing securities are being allocated on the basis of average daily holdings of interest bearing securities during the preceding five years. Profits and losses on Treasury bills are being allocated in proportion to Treasury bill holdings as of the day the profit or loss is realized which is the basis on which earnings on Treasury bills are accrued.

Inasmuch as current adjustments in holdings both of interest bearing securities and Treasury bills are being made on the same basis as was the January 1 reallocation, there will be no necessity of any further reallocations of securities in the System Open Market Account during the calendar year 1948 unless it should become evident either that actual expenses and dividends are likely to deviate considerably from the estimates used as of January 1 or that earnings other than from the System Open Market Account are likely to be considerably greater than the approximately \$3,000,000 estimated as of January 1.

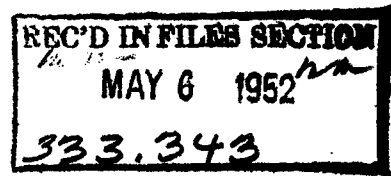
It is contemplated that this subject will receive further consideration during the remainder of the year with a view to the submission to the Federal Open Market Committee on or before its last meeting in 1948 of a revised formula for use beginning on or before January 1, 1949, in the event that experience indicates that the procedure now being followed is not altogether satisfactory.

R. G. Rouse

E. L. Smead

January 19, 1948.

DRAFT
4/3/52
SAM:fd



Mr. Robert F. Leonard,
Director, Division of Bank
Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

4/3/52

Dear Bob:

I have received from Mr. C. E. Earhart, President of the Federal Reserve Bank of San Francisco the attached memorandum prepared by Mr. Lowry of that bank with respect to a proposed revision of formula for allocation of securities held in the System Open Market Account. There is also enclosed a draft of memorandum which was prepared at this bank commenting on Mr. Lowry's proposal, with a supplementary memorandum enlarging on the concept of "inconvertible funds", the basis for Mr. Lowry's suggestions. I shall appreciate receiving from you your comments and suggestions on these memoranda before submitting our views to Mr. Earhart.

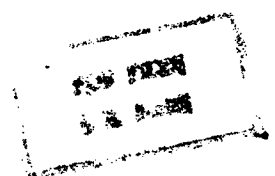
Very truly yours,

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

Enclosures (2)

(NOTE: This was left in my office by Mr. Rouse on April 21, 1952.)

RFL



February 19, 1952

Memorandum to Mr. E. A. Tamm

From Mr. Lowry

SUBJECT: Proposed revision of formula for allocation of securities held in System Open Market Account

The very large increase in holdings of Government securities by the Federal Reserve banks since 1943, and the resulting effect upon the reserve ratios of the various banks, raise a question as to whether any allocation formula based on expense and dividend requirements is realistic under conditions now existing or likely to exist in the foreseeable future.

Total system earnings in each year since 1944 have been at least double, sometimes triple, the amount needed to take care of expense and dividend requirements. Despite this fact, the present system of allocation does not take into consideration the amount of funds available for investment, except for adjustments made in Treasury bill holdings of banks with low reserve ratios.

Investable funds of the Reserve banks arise principally from Federal Reserve Notes outstanding and member bank reserve deposits, which together comprise about 90 percent of total liabilities. Regardless of the allocation formula used, it is the total of note and deposit liabilities (sometimes referred to hereinafter as "investable funds") which supply the funds used to accumulate gold reserves and investments.

Under the existing method of allocating system purchases of securities, the Boston, St. Louis, and Minneapolis Reserve banks are required to participate in the

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System Open Market Account in an amount equal to about 67 percent of their note and deposit liabilities, with a resulting reserve ratio of 31 percent. On the other hand, the New York, Chicago, and San Francisco banks, whose reserve ratios each exceed 50 percent, are required to participate only to the extent of 43 percent of their note and deposit liabilities.

At the time the allocation formula was revised in 1941, and again early in 1944, it was pointed out that an important factor in any system of allocation was to provide that each bank carry its share of the market risk. However, the 1944 study could not have anticipated the exceptionally heavy purchases, sales, and holdings in later years, and so could not have considered whether it was equitable for Minneapolis, the smallest Reserve bank, to bear the market risk on securities amounting to 68.2 percent of its investable funds, while New York, the largest bank, bore the market risk on securities equal to only 41.8 percent of its investable funds. To show the effect of this in a somewhat improbable situation, if the Reserve banks incurred losses on securities equal to 2-1/2 market points, based on holdings January 2, 1952, such losses would completely eliminate the Section 7 surplus and contingency reserves of Minneapolis, but would leave New York with surplus and reserves of \$55,000,000. (This illustration does not make allowance for the five-year-average method of allocating profits and losses on sales.)

Another market risk factor which could not have been considered in the 1944 study (Mr. Rouse's memorandum of May 4, 1944) was the effect of payment to the Treasury of interest on Federal Reserve Notes. The franchise tax was discontinued after 1932; and from 1933 to 1946, net earnings were retained by the Reserve banks, resulting in substantial surplus accumulations. During these years, banks with relatively high participations in terms of investable funds were permitted to retain 100 percent of net earnings, and so the market risk factor was of less significance. Beginning in 1947 the banks were able to retain only 10 percent of net earnings after dividends. Again using

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Minneapolis and New York as examples, the question is whether it is reasonable to ask Minneapolis to use 68.2 percent of its investable funds in Government securities and stand the market risk thereon, only to have 90 percent of net earnings paid as interest on Federal Reserve Notes, while New York is taking the market risk on only 41.8 percent of its investable funds.

Proposed allocation formula

In attempting to devise a more satisfactory formula for allocating securities held in the System Open Market Account, the primary objectives were to devise a method which would tend to equalize the reserve ratios of the various banks and provide adequate earnings for each bank without unreasonable surplus accumulations. Following is a general statement of the proposed formula:

THE AMOUNT OF EACH RESERVE BANK'S PARTICIPATION IN THE SYSTEM OPEN MARKET ACCOUNT SHALL BE DETERMINED ACCORDING TO THE PERCENTAGE EACH BANK'S DAILY AVERAGE FEDERAL RESERVE NOTES IN CIRCULATION, PLUS MEMBER BANK RESERVE BALANCES, BEARS TO DAILY AVERAGE NOTE AND MEMBER BANK RESERVE BALANCES OF THE SYSTEM AS A WHOLE, COMPUTED WEEKLY.

Profits and losses from sales could continue to be allocated on the basis of average holdings over a given period. Until the proposed formula has been in operation for said period, it would be necessary to adjust prior years' holdings to the proposed formula, or perhaps use a shorter period than the five-year period now in use.

Under the proposed formula, each bank's participation in the System Open Market Account would bear a definite relationship to investable funds. The immediate effect of the change would be to improve the reserve ratios of all the Reserve banks except New York, Chicago, and San Francisco. Reserve ratios under the present and

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proposed allocation formulas are shown below:

TABLE 1
RESERVE RATIOS JANUARY 2, 1952

	<u>Present</u>	<u>Proposed</u>	<u>Change</u>
Boston	32.45	45.29	/12.84
New York	56.97	46.97	-10.00
Philadelphia	45.49	47.34	/ 1.85
Cleveland	39.57	48.47	/ 8.90
Richmond	37.47	44.41	/ 6.94
Atlanta	37.27	45.82	/ 8.55
Chicago	51.64	46.04	- 5.60
St. Louis	30.47	45.52	/15.05
Minneapolis	30.98	46.95	/15.97
Kansas City	38.99	45.74	/ 6.75
Dallas	34.61	49.57	/14.96
San Francisco	52.25	46.65	- 5.60

It is believed that an important and favorable effect of the proposed method of allocation would be to dispel any misconception that the presently high reserve ratios of some banks and the low ratios of others are due to economic conditions within a given district.

The change in percentage allocations required to achieve the above equalization of reserve position is not great. The following table shows the percentage allocation of securities to each bank under the present and proposed formula:

TABLE 2

	<u>Percentage Allocation Effective January 1, 1952</u>	<u>Proposed Percentage Allocation, based on Figures for January 2, 1952</u>	<u>Change</u>
Boston	6.78	5.421	-1.359
New York	21.53	26.795	/5.265
Philadelphia	6.14	5.927	- .213
Cleveland	9.97	8.496	-1.474
Richmond	6.68	5.889	- .791
Atlanta	5.88	5.042	- .838
Chicago	15.45	17.328	/1.878
St. Louis	5.49	4.245	-1.245
Minneapolis	3.18	2.424	- .756
Kansas City	4.81	4.252	- .558
Dallas	4.72	3.660	-1.060
San Francisco	<u>9.37</u>	<u>10.521</u>	/1.151
Total	100.00	100.00	

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The figures for the single date of January 2, 1952, were used for the reason that no satisfactory average figures are available. However, a test of the average of figures for the last Wednesday in each month for the years 1950 and 1951 shows only slight deviation from the percentages used above.

The proposed allocation formula would result in substantial changes in holdings of securities at each bank and, of course, corresponding changes in gold reserves. The following table shows the effect of the proposed change, using the percentages shown in Table 2.

TABLE 3

(In thousands of dollars)

	<u>Securities Held in System Open Market Account January 2, 1952</u>	<u>Amount that Would Be Held Under Proposed Allocation</u>	<u>Change</u>
Boston	1,600,231	1,279,609	- 320,622
New York	5,081,399	6,324,868	+1,243,469
Philadelphia	1,449,467	1,399,048	- 50,419
Cleveland	2,353,337	2,005,452	- 347,885
Richmond	1,577,476	1,390,078	- 187,398
Atlanta	1,387,742	1,190,147	- 197,595
Chicago	3,646,211	4,090,215	+ 444,004
St. Louis	1,296,037	1,002,018	- 294,019
Minneapolis	750,651	572,177	- 178,474
Kansas City	1,135,219	1,003,670	- 131,549
Dallas	1,115,486	863,930	- 251,556
San Francisco	<u>2,211,402</u>	<u>2,483,446</u>	+ 272,044
Total	23,604,658	23,604,658	-

NOTE: The above table excludes \$53,000,000 held by New York either under resale agreement or for later allocation to other banks.

Adequacy of proposed method with respect
to expense and dividend requirements

The rate of earnings on United States securities held by the Federal Reserve banks averaged slightly more than 1-1/2 percent during the years 1948-1951, inclusive. At this average rate, holdings could decline to an average of \$8,924,000,000 and still provide sufficient earnings (under the present allocation formula) to cover estimated

expense and dividend requirements of \$139,168,000 for 1952. Even though the average rate should drop to 3/4 percent, holdings could decline to an average of \$17,848,000,000 and yet provide earnings adequate to meet expenses and dividends. Note that, if average holdings, or average rates, or both, dropped below the figures given, or if substantial losses on sales were incurred, the problem of adequate earnings would arise regardless of the method of allocation used.

The following table shows average holdings and earnings from securities and total expenses and dividends for the past several years:

TABLE 4

(Amounts in thousands of dollars)

<u>Year</u>	<u>Daily Average Holdings of U. S. Securities</u>	<u>Earnings on U. S. Securities</u>	<u>Average Rate of Earnings</u>	<u>Expenses and Dividends</u>
1943	7,724,488	68,090	0.88	52,457
1944	14,772,201	102,810	0.70	58,676
1945	21,363,244	139,553	0.65	58,900
1946	23,250,195	147,125	0.63	68,197
1947	22,331,740	155,564	0.70	76,916
1948	21,509,321	298,903	1.39	84,630
1949	19,572,664	312,241	1.60	89,807
1950	18,405,083	272,916	1.48	93,655
1951	-----not available-----			95,469
1952 (Est.)				139,168

Somewhat of interest is the fact that total earnings from securities in 1945 are about equal to estimated expenses for 1952.

Using the "investable funds" formula for both the allocation of securities and the allocation of earnings, losses, and profits, somewhat higher minimum holdings for the entire System would be required. However, the amounts required and the average rate of earnings required are well within the actual experience of the past several years. The following are examples of possible situations under the proposed allocation method, based on holdings January 2, 1952:

If holdings remained at present levels, the average rate of earnings could drop to about 0.75 percent and still produce earnings sufficient to cover estimated expense

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and dividend requirements of each Reserve bank for the year 1952.

If the rate of earnings remains at the average for the past four years of 1.50 percent, average holdings could decline to \$11,568,000,000 (about one-half of present holdings) and yet provide adequate earnings.

If the average rate of earnings should decline to 1 percent, average holdings could decline to \$17,362,000,000 and yet provide adequate earnings to cover expenses and dividends.

The proposed allocation formula would entirely eliminate the arrangement for adjusting the Open Market holdings of those Reserve banks which are unable to take additional Treasury bills because of low reserve ratios. As a part of the proposed formula, however, this arrangement could be continued, but reversed in its application so as to provide that securities with higher yields be allotted to the extent necessary to those banks whose estimated earnings are insufficient to cover expenses, dividends, and losses on securities. At the present time, it appears extremely unlikely that such a situation would develop under the proposed formula. The point made here is that it is as logical to provide for special allocations to cover a low earnings position as it is to cover a low reserve position. The effect on earnings of each bank is about the same whether high-yield securities are allocated to certain banks or whether these same banks refrain from taking low-yield securities. It is also significant to note that the only Reserve banks which might require an adjustment in their holdings of high-yield securities are the same banks which now have the lowest reserve ratios (Boston, St. Louis, Minneapolis, and Dallas).

Effect of proposed method with respect to surplus accounts

It has been shown that ownership of gold reserves, and also the factors of earnings, reserve ratios, and holdings of securities are all determined largely by whatever system is used for allocating securities. A fifth item is the surplus accounts of the banks. It is submitted in support of the proposed allocation formula

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that, so long as holdings of Government securities remain at a high level, these five important items should be related to the size of each Reserve bank, rather than to amount of each bank's expenses and dividends.

Many factors have affected the surplus accumulations of the Reserve banks over the years, and the figures at the present time show little uniformity. The following table shows the rank of each bank in terms of the relationship of surplus to capital and the total capital funds to deposits:

TABLE 5

	Percentage of Surplus to Capital Paid in <u>12/31/51</u>	Rank (Highest to Lowest)	Percentage of Capital, Surplus, and Reserves to Member Bank <u>Deposits 1/2/52</u>	Rank (Highest to Lowest)
Boston	263.3	1	5.87	2
New York	211.7	10	3.91	9
Philadelphia	247.5	6	7.20	1
Cleveland	225.1	9	5.29	3
Richmond	260.3	5	5.05	5
Atlanta	245.8	7	4.41	7
Chicago	262.1	3	4.01	8
St. Louis	260.4	4	4.77	6
Minneapolis	262.2	2	5.05	4
Kansas City	229.2	8	3.65	10
Dallas	170.0	12	3.58	12
San Francisco	<u>188.6</u>	11	<u>3.62</u>	11
System	227.5		4.34	
Banks:				
Above Average	8		7	
Below Average	4		5	

It will be observed that New York and San Francisco are among the lowest banks in both columns above and that Chicago is among the lowest in the column showing percent of capital funds to member bank deposits. Since these three banks would receive additional holdings of securities under the proposed plan, and thus increased earnings, figures such as the above will help to answer possible objections by banks which will receive a smaller share of earnings under the proposed plan.

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Under the proposed method of allocation, the nine banks which would receive reduced allotments of securities would, of course, have smaller amounts of earnings remaining for addition to surplus. That such additions will still be substantial is indicated in the following table which covers the year 1950:

TABLE 6

(In thousands of dollars)

	<u>Amount transferred to surplus year 1950</u>	<u>Amount which would have been transferred to surplus in 1950 if proposed allocation formula had been used for both earnings and profits on sales</u>	<u>Increase or Decrease (-)</u>
Boston	1,468	968	- 500
New York	5,141	6,193	1,052
Philadelphia	1,505	1,302	- 203
Cleveland	2,058	1,731	- 327
Richmond	1,387	1,127	- 260
Atlanta	1,175	1,041	- 134
Chicago	3,316	4,239	923
St. Louis	1,177	765	- 412
Minneapolis	674	492	- 182
Kansas City	1,002	864	- 138
Dallas	979	681	- 298
San Francisco	<u>1,967</u>	<u>2,446</u>	<u>479</u>
	21,849	21,849	-

In examining surplus accumulations from the long-term view, it would appear that the proposed allocation formula will be superior to the present one in adjusting the relationship between surplus and capital. At the present rate of surplus accumulation, and under the present allocation formula, the combined surplus accounts of the Reserve banks would equal 300 percent of paid-in capital in about six years, or by 1957, assuming for this purpose that no changes take place in the capital accounts. However, while Boston, St. Louis, and Minneapolis would reach this figure in about two years, it would require eleven years for New York and ten years for San Francisco to accumulate surplus equal to 300 percent of capital. Under the proposed formula, the

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rate of surplus accumulation will be accelerated at New York and San Francisco and decelerated at Boston, St. Louis, and Minneapolis. (While only five banks are used in this example, our study shows that, with only two exceptions--Chicago and Dallas--the rate of surplus accumulation under the proposed formula will be more equitable for all banks than the present formula.)

* * * * *

NOTE: In preparing the text and tables contained herein, use was made of information available at the time. Should the proposed formula be approved for formal presentation to a Presidents' Conference or other committee, much of the material should be replaced by later information when available. Figures showing earnings and expenses of each Reserve bank will be available in the Federal Reserve Bulletin for February, while the amount of average deposits and note circulation could probably be obtained from the Board or the individual banks. Earnings on securities held in the System Open Market Account, as distinguished from total earnings on securities, would also be useful.

10/10/40

COMMENTS ON MEMORANDUM FROM MR. LOWRY TO MR. EARHART
RE: PROPOSED REVISION OF FORMULA FOR ALLOCATION OF SECURITIES
HELD IN SYSTEM OPEN MARKET ACCOUNT

The subject memorandum contains a very thoughtful discussion of the factors involved in the allocation problem and presents a plan of allocation which has considerable merit from several points of view. This subject has been reviewed a number of times over the years in an effort to find the best plan that would result in an equitable distribution of earnings and risk and, at the same time, be as simple as possible from an operating standpoint. Generally, the plans studied were designed to accomplish some suggested objective such as (a) obtaining a better distribution in surplus accounts in relation to capital accounts, (b) equalizing the reserve ratios of all the Reserve Banks, or (c) providing an allotment basis which would appear more conducive to economical Reserve Bank operations than one based on expense and dividend ratios. To date the current plan of allocation has appeared to be more favorable to most of the Banks and less cumbersome to handle in the daily operation of the System Account. It is, perhaps, impossible to devise a plan which will meet every desired objective and the System can only weigh the various factors, both theoretical and practical, and decide on the most preferable course *as of that time.*

The primary objectives of the proposed plan are stated to be "to devise a method which would tend to equalize the reserve ratios of the various Banks and provide earnings for each Bank without

unreasonable surplus accumulations." The principle of distributing System earnings according to needs evidenced by expenses and dividends, which has been the basis of primary allotment over a long period of years, takes a secondary place under the proposed plan. There is no doubt that under present conditions this plan would tend to equalize reserve ratios and also to provide adequate earnings for each Bank. However, there are several other matters to which ^{my lawyer} you may desire to give some consideration before proposing acceptance of this plan.

The objective of equalizing reserve ratios seems to be based on the reasoning that it would "dispel any misconception that the presently high reserve ratios of some banks and the low ratios of others are due to economic conditions within a given district." If this idea were entirely misconception, there ^{MIGHT} would be some reason to dispel it in this manner, although little attention is apparently paid by the public to the ratios of the individual Reserve Banks. It is, of course, true that the reserve ratios are affected by the allocation of the System Account and, therefore, do not accurately reflect the flow of funds between Reserve districts. Nevertheless, under present procedures the reserve ratios at times and over a period, also reflect the flow of funds related to commercial and Government activities. So long as this element is present to the point where a Bank's reserve ratio declines to the minimum ratio maintained, there seems to be no compelling reason to try to equalize the ratios of all the Banks. Actually, reasons for not doing so have been advanced along the following lines:

what is source of the following facts

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We are operating twelve separate reserve banks and while obviously many adjustments have to be made and are currently made to keep the reserve ratios within a pre-determined (minimum) range, it is questioned whether it would be wise to operate on the basis of maintaining a fixed identical ratio for all twelve banks. If this is a desirable program, then perhaps there should be one bank. On the whole, it is believed better to let the reserve ratio have some semblance of falling as it may.

In support of the proposed plan, it is stated that the present system of allocation does not take into consideration the amount of funds available for investment, except for adjustments in Treasury bill holdings of banks with low reserve ratios, and that regardless of the allocation formula used, it is the total of note and deposit liabilities which supply the funds used to accumulate gold reserves and investments. Accordingly, the suggested plan adopts as the basis of allocation the Federal Reserve Notes outstanding and member bank deposits at each Bank.

The logic and equity of this reasoning appears somewhat questionable. When applied to a Bank which creates its liabilities through making investments, i.e., buying securities or making loans, it has little meaning and could produce undesirable results. For example, under this theory if a particular Reserve Bank should make sizable loans, its deposit liabilities would be simultaneously and equally increased entitling it to a proportionately larger share of the System Account. The Bank would actually have no more free funds which could be invested in the System Account than before, since the loan increase would offset the deposit increase. There seems to be no reason why a Bank should acquire a larger portion

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of the System Account just because it has made more loans which, of course, are also earning assets. Carried to the extreme it is conceivable that a Bank could make so many loans that it would be unable to take any further share of the System Account for lack of gold reserves. It is obvious also that if loans or investments other than Government securities held in the System Account should become a more important factor at a particular Bank under the proposed plan, its reserve ratio would tend away from equality with other Banks. The present plan makes some allowance for this factor since the expense and dividend ratios are arrived at after allowing for income from sources other than the System Account.

The investable funds as represented by the note and deposit liabilities are also held to be a fairer measure of the ability of each Bank to carry its share of the market risk in the System Account than the present basis of allocation. It is pointed out that Minneapolis, the smallest Reserve Bank, on January 1, 1952, bore the market risk on securities amounting to 68.2 per cent of its investible funds, while New York, the largest Bank, bore risk on securities equal to 41.8 per cent of its investible funds. It is difficult to take this argument very seriously since the practical market risk to any one Bank is relatively very small. It is hardly conceivable that a sufficiently large portion of the System Account holdings would, or could, be sold to produce losses which could not be deducted from current earnings or reserves. Moreover, aside from any recovery in market prices over a period of time, the

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depreciation in market values of System Account holdings diminishes as the various issues move toward maturity.

It is also stated that the allocation of securities under the proposed plan would result in better distribution of earnings from the standpoint of the amounts which are to be added to surplus each year after the 90 per cent payments to the Treasury. The immediate effect would be to increase the surplus transfers at the Reserve Banks whose surplus is most out of line with capital, namely New York and San Francisco. The longer term effects would be a tendency toward equalizing the relationships between surplus and capital among all the Reserve Banks. As mentioned earlier, this objective does have merit. However, arriving at it through the proposed plan might meet with some opposition from the majority of the Banks which would lose earning assets to the three largest Banks. Moreover, the same objective could be achieved more quickly and probably with more equity by adjusting the amounts paid by each Bank to the Treasury each year.

With respect to the adequacy of earnings the point is rightly made that for the foreseeable future earnings should be more than ample to cover expenses and dividends no matter what method of allocation is used. The further comment is made that if holdings or earnings rates drop below a certain figure or if substantial losses are taken in the System Account, the problem of adequate earnings would arise regardless of the method of allocation used. While this is perfectly true, there would also be the

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problem of allocating the remaining earnings equitably; this is exactly the problem that existed in the earlier days of the System Account. Under the proposed plan the solution would be to allot securities with higher yields to the extent necessary to those Banks whose estimated earnings are insufficient to cover expenses, dividends and losses on securities.

The allocation of specific issues to produce this result would complicate System Account bookkeeping to an extent inconsistent with the objective of simplification. The first difficulty would be to arrive at the amount of securities of certain types required to produce the necessary earnings for particular Banks. The securities so allocated would then have to be carried in a separate account for each Bank, with separate accruals, etc., multiplying the accounting work. If any of the specially allocated securities were sold, the earnings of the Banks involved could only be maintained by reallocating the entire amount. Incidentally, this procedure would concentrate the securities carrying the highest market risk in the Banks having the highest expenses and dividends, if that point has any significance.

The alternative to such special allocations of higher-yield securities when System earnings are low would be to return to the expense and dividend basis of allocation, clearly the best basis at such times. This raises the question whether, as a matter of policy, the present method of allocation should be revised unless it is clearly desirable from both a short- and long-term standpoint. While the present plan provides that minimum

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reserve ratios be maintained, generally speaking the general objective in recent years has been to keep to a minimum the reallocations necessary in the System Account. Frequent reallocations greatly increase the accounting work and the weekly reallocations contemplated in the suggested plan would be cumbersome. Obviously the opposite premise could be followed, but it would seem to be largely a matter of individual preference as with many other angles of this entire question.

SSM:SAM:fd

April 2, 1952.

The "Investable Funds" of the Federal Reserve Banks

The memorandum from Mr. Lowry of the Federal Reserve Bank of San Francisco, concerning a new proposal for allocating shares in the System's portfolio among the Federal Reserve banks, introduces a conception of "investable funds" that deserves careful analysis. Insofar as this conception has a bearing upon the allocation of securities in the Federal Reserve Open Market Account among the various Federal Reserve banks, the memorandum prepared by the Securities Department of this bank provides a thorough and comprehensive appraisal. But the use of the term "investable funds," and the concept underlying that use, has far wider ramifications in terms of Federal Reserve System operations, and in terms of some of the underlying principles of central banking. Consequently, a brief separate note on this broader aspect would seem to be in order.

Mr. Lowry conceives of the System's investable funds as those made available to it through the volume of its outstanding note issue and the volume funds provided by member banks through deposits of their reserves in the Federal Reserve banks. This would seem, however, to be a reversal of the sequence of events. Member bank reserve balances on deposit at the Federal Reserve banks arise largely as a result of the funds made available by the Federal Reserve System. Similarly, the volume of Federal Reserve notes outstanding is a by-product of the total quantity of money that results from the expansion of member bank credit and deposits, based upon the reserve funds created by the action of the Federal Reserve banks. While the decision rests with the public as to the proportion of the money supply it wishes to retain in currency form, the volume of currency outstanding is dependent upon the supply of reserve funds provided by the Federal Reserve banks. Thus the total quantity to which Mr. Lowry applies the term "investable funds" is, in fact, mainly the result of the monetary and credit policy actions of the Federal Reserve System. These "funds" are not in any meaningful sense, therefore, made available to

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the Federal Reserve banks by the public or by the member banks. The causal sequence runs the other way. Moreover, once the total volume of note issue and member bank reserve balances (in combination) has been determined at the initiative of the Federal Reserve System, the distribution of that total is determined by the interdistrict flow of funds. It is this flow which in turn determines the specific reserve positions of individual member banks, and of the 12 individual Federal Reserve banks.

Thus, while the distribution of Federal Reserve notes and of deposits on the books of the Federal Reserve banks among Federal Reserve districts is the result of various forces operating in the economy, the total volume reflects actions taken by the System to provide an appropriate volume of money and credit for the economy. It would be unfortunate if the security holdings and earnings of individual Reserve banks were to become linked directly with the volume of member bank reserve deposits and notes outstanding in the various Federal Reserve districts. The analogy would be uncomfortably close to the position mistakenly taken by many member banks that they actually provide funds which are used by the Federal Reserve banks in making System purchases of Government securities. It is necessary from time to time to make clear to the member banks that their reserve balances are instead largely a result of Federal Reserve purchases of Government securities (and other releases of Federal Reserve credit). It would become awkward indeed to stress this essential point in our relations with the member banks if the Federal Reserve banks themselves followed a principle for the allocation of security holdings (and earnings) which seemed to accept the concept that "investable funds" are provided to the Federal Reserve System by the member banks and by the public through its holding of Federal Reserve notes.

Robert V. Rosa
April 7, 1952

Mr Leonard
Mr Daniels
Fin

FEDERAL RESERVE BANK
OF NEW YORK

NEW YORK 45, N. Y.

January 3, 1952.

REC'D IN FILES SECTION
JAN 5 1952
333,343

Mr. S. R. Carpenter,
Secretary, Federal Open Market
Committee,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Mr. Carpenter:

I am enclosing herewith a copy of the computa-
tion showing the changes made on January 2, 1952, as of
January 1, 1952 in participations in the System Open Market
Account, pursuant to the procedure approved at the meeting
of the Federal Open Market Committee on December 9, 1947.

Also enclosed herewith is a copy of the January 2,
1952 telegram which was sent to each of the Reserve Banks
and a copy of the letter of transmittal which was sent with
a copy of the computation.

Very truly yours,

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

Orig. filed FOMC: Syst. Sec. A/cct.
System Open Mkt. acct.
Participations

Enclosures (3)

MISC. 140A

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN FILES SECTION
JAN 5 1952
NEW YORK 45 NEW YORK

January 3, 1952.

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

Dear Mr. Williams:

In accordance with our telegram of January 2, 1952,
I enclose herewith computation of the readjustments made on
January 2, 1952, as of January 1, 1952, in the participations
of the Federal Reserve Banks in the System Open Market portfolio.

Very truly yours,

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

Enclosure

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REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1952
(In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minneap- olis	Kansas City	Dallas	San Francisco
A. Estimated expenses and dividends, 1952:													
1. Expenses	124,985	8,436	25,955	7,544	12,146	8,462	7,404	19,387	7,050	4,016	6,266	5,721	12,598
2. Dividends	14,183	779	4,528	1,006	1,350	622	583	1,812	501	322	533	641	1,506
3. Total expenses and dividends	139,168	9,215	30,483	8,550	13,496	9,084	7,987	21,199	7,551	4,338	6,799	6,362	14,104
B. Estimated earnings, 1952, other than on System Account securities	5,304	140	1,666	330	150	138	117	521	201	81	361	36	1,563
G. "A-3" minus "B"	133,864	9,075	28,817	8,220	13,346	8,946	7,870	20,678	7,350	4,257	6,438	6,326	12,541
D. Ratios (per cent) based on "C"	100.0	6.7793	21.5271	6.1406	9.9698	6.6829	5.8791	15.4470	5.4906	3.1301	4.8093	4.7257	9.3685

I. Allocation of Interest-Bearing Securities

E. Allocation of interest-bearing securities on basis of "D"	23,136,798	1,568,513	4,980,682	1,420,738	2,306,692	1,546,209	1,360,236	3,573,941	1,270,349	735,773	1,112,718	1,093,376	2,167,571
F. Present allocations	23,136,798	1,640,736	5,174,608	1,455,767	2,161,208	1,538,435	1,248,439	3,451,541	1,261,395	734,501	1,089,373	1,107,142	2,273,653
G. Change in allocations	--	-72,223	-193,926	-35,029	+145,484	+7,774	+111,797	+122,400	+8,954	+1,272	+23,345	-13,766	-106,082

II. Allocation of Treasury Bills

H. Allocation of Treasury bills on basis of "D"	467,860	31,718	100,717	28,729	46,645	31,267	27,506	72,270	25,688	14,878	22,501	22,110	43,831
I. Present allocations	467,860	--	137,177	29,438	43,703	31,110	25,245	70,434	25,507	14,852	22,029	22,388	45,977
J. Change in allocations	--	+31,718	-36,460	-709	+2,942	+157	+2,261	+1,836	+181	+26	+472	-278	-2,146

III. Total Allocation of System Account Securities

K. Total allocation of System	23,604,658	1,600,231	5,081,399	1,445,467	2,353,337	1,577,476	1,387,742	3,646,211	1,296,037	750,651	1,135,219	1,115,486	2,211,402
L. Present allocations	23,604,658	1,640,736	5,311,785	1,485,205	2,204,911	1,569,545	1,273,684	3,521,975	1,286,902	749,353	1,111,402	1,129,530	2,319,630
M. Change in allocations	--	-40,505	-230,386	-35,738	+148,426	+7,931	+114,058	+124,236	+9,135	+1,298	+23,817	-14,044	-108,228

DECLASSIFIED
Authority E.O. 10501

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

REC'D IN FILES SECTION
 JAN 3 1952
 333.343

January 2, 1952.

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account as of January 1, 1952, will be as follows, in thousands of dollars:

	<u>Interest-bearing securities</u>	<u>Treasury bills</u>	<u>Total</u>
Boston	-72,223	+31,718	-40,505
New York	-193,926	-36,460	-230,386
Philadelphia	-35,029	-709	-35,738
Cleveland	+145,484	+2,942	+148,426
Richmond	+7,774	+157	+7,931
Atlanta	+111,797	+2,261	+114,058
Chicago	+122,400	+1,836	+124,236
St. Louis	+8,954	+181	+9,135
Minneapolis	+1,272	+26	+1,298
Kansas City	+23,345	+472	+23,817
Dallas	-13,766	-278	-14,044
San Francisco	-106,082	-2,146	-108,228

Leonard.

MD:cmc

[Handwritten initials and signatures]

FILE COPY

REC'D IN FILES SECTION
JAN 2 1952
333,343

January 2, 1952.

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

There is enclosed a statement showing adjustments to be made in allocations of Government securities in the System Open Market Account as of January 1, 1952, prepared in accordance with the procedure approved by the System Open Market Committee December 9, 1947. The figures shown have been discussed over the telephone by representatives of your office and of this office.

Very truly yours,

R. F. Leonard, Director,
Division of Bank Operations.

Enclosure.

MD:cmc

FILE COPY

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1952

(In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minneap- olis	Kansas City	Dallas	San Francisco
Estimated expenses and dividends, 1952:													
1. Expenses	124,985	8,436	25,955	7,544	12,146	8,462	7,404	19,387	7,050	4,016	6,266	5,721	12,598
2. Dividends	14,183	779	4,528	1,006	1,350	622	583	1,812	501	322	533	641	1,506
3. Total expenses and dividends	139,168	9,215	30,483	8,550	13,496	9,084	7,987	21,199	7,551	4,338	6,799	6,362	14,104
B. Estimated earnings, 1952, other than on System Account securities	5,304	140	1,666	330	150	138	117	521	201	81	361	36	1,563
C. "A-3" minus "B"	133,864	9,075	28,817	8,220	13,346	8,946	7,870	20,678	7,350	4,257	6,438	6,326	12,541
D. Ratios (per cent) based on "C"	100.0	6.7793	21.5271	6.1406	9.9698	6.6829	5.8791	15.4470	5.4906	3.1801	4.8093	4.7257	9.3685

I. Allocation of Interest-Bearing Securities

E. Allocation of interest-bearing securities on basis of "D"	23,136,798	1,568,513	4,980,682	1,420,738	2,306,692	1,546,209	1,360,236	3,573,941	1,270,349	735,773	1,112,718	1,093,376	2,167,571
F. Present allocations	23,136,798	1,640,736	5,174,608	1,455,767	2,161,208	1,538,435	1,248,439	3,451,541	1,261,395	734,501	1,089,373	1,107,142	2,273,653
G. Change in allocations	--	-72,223	-193,926	-35,029	+145,484	+7,774	+111,797	+122,400	+8,954	+1,272	+23,345	-13,766	-106,082

II. Allocation of Treasury Bills

H. Allocation of Treasury bills on basis of "D"	467,860	31,718	100,717	28,729	46,645	31,267	27,506	72,270	25,688	14,878	22,501	22,110	43,831
I. Present allocations	467,860	--	137,177	29,438	43,703	31,110	25,245	70,434	25,507	14,852	22,029	22,388	45,977
J. Change in allocations	--	+31,718	-36,460	-709	+2,942	+157	+2,261	+1,836	+181	+26	+472	-278	-2,146

III. Total Allocation of System Account Securities

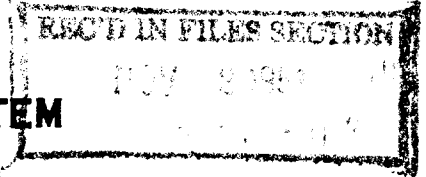
K. Total allocation of System	23,604,658	1,600,231	5,081,399	1,449,467	2,353,337	1,577,476	1,387,742	3,646,211	1,296,037	750,651	1,135,219	1,115,486	2,211,402
L. Present allocations	23,604,658	1,640,736	5,311,785	1,485,205	2,204,911	1,569,545	1,273,684	3,521,975	1,286,902	749,353	1,111,402	1,129,530	2,319,630
M. Change in allocations	--	-40,505	-230,386	-35,738	+148,426	+7,931	+114,058	+124,236	+9,135	+1,298	+23,817	-14,044	-108,228

MP

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



November 1, 1951

Black - Chicago

See Note attached
 Airmail report on note and deposit liability, gold certificate reserves, and reserve ratio each Reserve Bank on October 31 misdirected. Figures shown below:

	Note and deposit liabilities	Gold certificate reserves	Reserve ratio (per cent)
(Amounts in thousands of dollars)			
Boston	2,386,857	722,842	30.3
New York	11,858,211	6,530,908	55.1
Philadelphia	2,682,383	1,199,664	44.7
Cleveland	3,805,815	1,575,876	41.4
Richmond	2,661,066	1,036,285	38.9
Atlanta	2,261,326	950,006	42.0
Chicago	7,920,847	4,234,176	53.5
St. Louis	1,932,125	613,216	31.7
Minneapolis	1,115,789	353,198	31.7
Kansas City	1,930,858	763,963	39.6
Dallas	1,699,492	566,252	33.3
San Francisco	4,918,614	2,457,555	50.0
System	45,173,383	21,003,941	46.5

FILE COPY

11/1

Files -

The "airmail report" referred to is the one mentioned in our letter of July 3, 1951, to Mr. Black. It is sent on our Form B-253 and no copies are kept in Files because the figures are just copied from the daily condensed statement.

D. Werner

REC'D IN FILES SECTION
AUG 10 1951
~~August 9, 1951~~

Files

M. B. Daniels

REC'D IN FILES SECTION
man AUG 13 1951 *ab*
333.34
8/9/51

Based on actual earnings, expenses, and dividends of the Federal Reserve Banks during the first half of 1951, a review has been made of allocations of securities held in the System Open Market Account. We concluded from this review that a reallocation of securities was not called for at this time. This conclusion was mentioned in a discussion with Mr. R. H. Behrens of the Securities Department at the New York Bank. Mr. Behrens said that he had made some calculations on the basis of January through May figures, and he, too, agreed that it did not appear a reallocation was necessary.

FILE COPY

REC'D IN FILES SECTION
JUL 26 1951
255 242

FEDERAL RESERVE BANK OF CHICAGO

CHICAGO 90 July 20, 1951

Mr. R. F. Leonard, Director
Division of Bank Operations
Board of Governors of the
Federal Reserve System
Washington 25, D.C.

Dear Mr. Leonard:

As indicated in your letter of July 3, 1951 we have received the statement of note and deposit liabilities, gold certificate reserves, and reserve ratios of each Federal Reserve Bank as of the close of business each Tuesday and end of month. We wish to thank you for arranging to have them sent to us.

The past two weeks the statements have arrived on Friday morning. Receiving them a day sooner would make it possible for us to compute the new reserve adjustments for allocation of the open market participations in time to maintain our regular flow of work without interruption.

We would appreciate it if you will arrange to have the statements sent by Air Mail instead of regular mail as that should insure delivery to us a day sooner.

*Sent Air Mail
beginning
7-25-51
Shit*

Very truly yours,

Allan M. Black

Allan M. Black, Vice President

RECEIVED

JUL 26 1951

DIVISION OF
BANK OPERATIONS

FOR FILES
D. L. Werner

REC IN FILES SECTION
JUL 5 1951
333, 943

July 3, 1951

Mr. Allan M. Black, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Black:

Referring to your letter of June 29, there is enclosed a statement giving note and deposit liabilities, gold certificate reserves, and reserve ratios of each Federal Reserve Bank as of July 2. Hereafter, we shall mail a similar statement each week and at the end of each month, on the assumption that you wish to have the same figures supplied by us to the Federal Reserve Bank of New York over the telephone in connection with the weekly and month-end adjustments in participations in the System Open Market Account.

If these reports do not reach you in time by mail, we shall be glad to wire them.

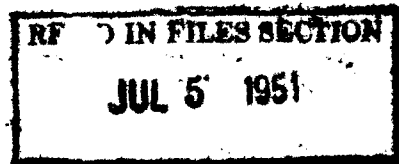
Very truly yours,

R. F. Leonard, Director,
Division of Bank Operations.

Enclosure

MD *AA*
MB,dlw

FILE COPY



Federal Reserve Note and Deposit Liabilities, Gold Certificate Reserves, and Ratio of Gold Certificate Reserves to Note and Deposit Liabilities of the Federal Reserve Banks

July 2, 1951

(Amounts in thousands of dollars)

<u>Federal Reserve Bank</u>	<u>Note and deposit liabilities</u>	<u>Gold certificate reserves</u>	<u>Reserve ratio (per cent)</u>
Boston	\$2,332,421	\$716,117	30.7
New York	12,187,477	6,802,239	55.8
Philadelphia	2,629,038	1,171,262	44.6
Cleveland	3,632,527	1,446,931	39.8
Richmond	2,433,747	852,433	35.0
Atlanta	2,177,592	871,604	40.0
Chicago	7,820,237	4,230,695	54.1
St. Louis	1,805,298	537,552	29.8
Minneapolis	1,068,207	331,211	31.0
Kansas City	1,852,297	703,290	38.0
Dallas	1,578,815	491,255	31.1
San Francisco	4,711,211	2,359,687	50.1
System	\$44,228,867	\$20,514,276	46.4

BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM
DIVISION OF BANK OPERATIONS

July 3, 1951

FILE COPY

MD/dlw

FEDERAL RESERVE BANK OF CHICAGO
CHICAGO 90

Miss Weper
REC'D IN FILES SECTION
Miss Conover
JUL 5 1951
333,343

June 29, 1951

TC

Mr. R. F. Leonard, Director
Division of Bank Operations
Board of Governors of the Federal Reserve System
Washington 25, D. C.

Dear Mr. Leonard:

Wire 6/28/51
The reserve ratios requested in my wire to Mr. Myrick are used in connection with maintaining duplicate records, in this office, of Open Market transactions. In order that this work may be kept up to date, we need the following information not later than Thursday morning of each week:

Note and Deposit Liability, Reserves, and Reserve Percentages of each Federal Reserve Bank as at close of business each Tuesday.

Very truly yours

Allan M. Black
Allan M. Black
Vice President

*Copy file to
500.21-2*

[Faint stamp]

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

RECORDED IN FILES SECTION
JUL 5 1951
333 143

June 28, 1951

Black - Chicago

Reurtel today, reserve ratios as of Tuesday,
June 26, for each Federal Reserve Bank are:

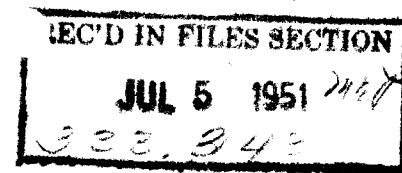
A	30.2	G	54.9
B	56.2	H	31.9
C	45.0	I	30.9
D	39.8	J	38.0
E	35.0	K	31.8
F	39.5	L	50.1
		Total	46.7

Will the ratios requested be in addition to our wire to Jones each Thursday giving reserve percentages as of Wednesday?

Leonard

FILE COPY

TELEGRAM
LEASED WIRE SERVICE
RECEIVED AT WASHINGTON



1951 JUN 28 AM 10 47

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WA18G63BD WASH GX10 CGO 28-933

MYRICK

WILL YOU PLEASE WIRE RESERVE PERCENTAGES OF EACH FEDERAL RESERVE BANK AS AT CLOSE OF BUSINESS TUESDAY, JUNE 26. I WILL APPRECIATE RECEIVING THIS SAME INFORMATION AT CLOSE OF BUSINESS EACH ~~TEXT~~ TUESDAY, EITHER BY MAIL OR WIRE, SO AS TO REACH OUR OFFICE NOT LATER THAN THURSDAY MORNING OF EACH ~~WEEK~~ WEEK.

BLACK.

FEDERAL RESERVE BANK
OF NEW YORK

~~in duplicate~~
Mr. Rouse
Mr. F. F. Fungoni
Files
NEW YORK 45, N. Y.

April 20, 1951.

REC'D IN FILES SECTION
MAY 8 1951
333343

Mr. Robert F. Leonard, Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D.C.

Dear Bob:

I thought you might be interested in the attached memorandum which I received from our General Auditor and my reply thereto with respect to weekly adjustments in participations in System Open Market Account.

Very truly yours,

Bob

Robert G. Rouse,
Manager, System Open
Market Account

Attachments

You may wish to mention it to Sam

FOR FILES
E. L. Werner

MISC. 3.3-55M-9-50

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

C O P Y

DATE April 17, 1951

TO Mr. Bowman

SUBJECT: Weekly Adjustments in Participa-
tions in System Open Market Account

FROM R. G. Rouse

REC'D IN FILES SECTION
MAY 8 1951

In your memorandum to me dated April 12, 1951 you asked the following two questions:

1. Whether there is any authority for making the adjustment in terms of interest-bearing notes and bonds rather than solely in bills, inasmuch as only bills are specified by the Federal Open Market Committee.
2. Assuming there is such authority, whether such adjustment in securities other than bills should not be made in notes to the extent possible, rather than also in bonds in order to afford the bank involved in the adjustment the greatest possible retention of earnings arising out of its participation in the System Open Market Account.

The present plan for allocating United States Government securities in the System Open Market Account was approved by the Federal Open Market Committee, among other reasons, to simplify the accounting work by confining participations in the Account to two groups of securities, i. e., Treasury bills and interest-bearing securities.

While not specifically stated in the final form of plan, it was contemplated that the Banks would utilize Treasury bills for adjusting reserve positions before selling a participation in interest-bearing securities held in the Account. It was also contemplated that if a Bank's participation in Treasury bills was insufficient, the adjustment would be made in its total participation of interest-bearing securities rather than in any specific class of securities, such as Certificates of Indebtedness, Notes or Bonds. One of the principal objectives in the formulation of the new plan was to avoid having to deal with too many different sets of ratios. And it was understood that the procedure adopted and currently in use would reduce the number of different sets of ratios used for (1) the allocation of earnings on Certificates of Indebtedness, Notes and Bonds, and (2) the distribution of profit and loss on those issues.

The Federal Open Market Committee is advised of all adjustments made in the participations of the Federal Reserve Banks in the System Open Market Account and, therefore, is aware of the adjustment to which you refer in interest-bearing securities for the Federal Reserve Bank of Boston. However, it was that particular adjustment and the reduction during the past year in

MISC. 3.3-55M-9-50

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 17, 1951

TO Mr. Bowman
FROM R. G. Rouse

SUBJECT: Weekly adjustments in Participation
in System Open Market Account

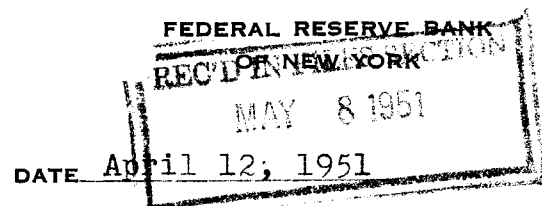
-2-

the average reserve ratio for the System that prompted us to recommend to the Federal Open Market Committee the maintenance of a minimum reserve ratio of 30 per cent instead of 35 per cent for the Federal Reserve Banks, through adjustments in participations in the System Open Market Account. At a meeting on March 8, 1951 the Federal Open Market Committee approved such a reduction in the minimum reserve ratios of the Federal Reserve Banks.

cc: to Messrs. Marsh, Behrens and Johnson

SAM:fd

MISC. 3.3-55M-9-50

COPY**OFFICE CORRESPONDENCE**

TO Mr. Rouse
 FROM C. R. Bowman

SUBJECT: Weekly Adjustments in Participation in System Open Market Account

I should like to raise two questions with respect to the weekly adjustment of participations by the respective Reserve Banks in the securities held in the System Open Market Account, which are made in order to raise reserve ratios of any Banks that are below the 35 per cent level and to restore full participation of any Bank in the account to which it is entitled when its participation has previously been reduced because of a low reserve ratio. I understand such adjustments are carried on pursuant to action taken by the Federal Open Market Committee on December 9, 1947. The procedure established by the committee appears to have been based entirely on the approach of making these weekly adjustments in the respective Bank's participation of Treasury bills.

My auditors have referred to me an adjustment which was made on Wednesday, February 21. This adjustment involved the participation of the Federal Reserve Bank of Boston, and the situation was such, I understand, that in order to raise that bank's reserve ratio to 35 per cent it was necessary to reduce its participation in the account by the amount of \$2,450,000 beyond all of its share in Treasury bills. Consequently, Boston's participation in interest bearing securities (both notes and bonds) was reduced by this amount.

The first question I wish to raise is whether there is any authority for making the adjustment in terms of interest

MISC. 3.3-55M-9-50

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE _____

TO _____

SUBJECT: _____

FROM _____

- 2 -

bearing notes and bonds rather than solely in bills, inasmuch as only bills are specified by the Federal Open Market Committee.

The second question is, assuming there is such authority, whether such adjustments, in securities other than bills, should not be made in notes, to the extent possible, rather than also in bonds; in order to afford the bank involved in the adjustment the greatest possible retention of earnings arising out of its participation in the System Open Market Account. It seems reasonable to infer that the Federal Open Market Committee may have had the matter of earnings in mind when it specified Treasury bills as the medium for making adjustments. I recognize, of course, that such an approach might require some changes in accounting, including a further segregation on the records of the different kinds of interest bearing securities. I also recognize that at the moment such a refinement in adjusting participations would result in only very nominal changes in allocation of earnings.

/s/ CRB

FEDERAL RESERVE BANK
OF NEW YORK

Mr. Daniels ✓
Mr. Myrtle
Mr. Fisher
Washburn
NEW YORK 45, N. Y. *File*

January 3, 1951

REC'D IN FILES SECTION
R JAN 8 1951 *sb*
333.343

✓
Dear Mr. Horbett:

We received your letter of January 2, 1951 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on January 2, 1951, as of January 1, 1951, pursuant to the procedure approved at the meeting of the Federal Open Market Committee on December 9, 1947. *new*

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on January 2, 1951. *2 detached M.D.*

Very truly yours,

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

Mr. J. E. Horbett, Asst. Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Enclosures (5)

FOR FILES
L. M. Goheen

MISC. 140A-80M-3-48

FEDERAL RESERVE BANK OF NEW YORK

January 3, 1951

**Mr. Joseph A. Erickson, President
Federal Reserve Bank of Boston
Boston, Massachusetts**

Dear Mr. Erickson:

In accordance with our telegram of January 2, 1951, I enclose herewith computation of the readjustments made on January 2, 1951, as of January 1, 1951, in the participations of the Federal Reserve Banks in the System Open Market portfolio.

Very truly yours,

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

Enclosure

HMB

MI 30. 140-B-20M-6-46

SECURITIES DEPARTMENT
RMB:194B

CHANGE TO "SAB"

JANUARY 2, 1951

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

Readjustment of participations in Government securities held in System Account is being made today as of January 1, 1951 under the procedure for reallocation of Government securities approved by the Federal Open Market Committee December 9, 1947. The computations showing adjustments made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on January 3, 1951. These computations indicate an INCREASE DECREASE of \$ in your participation in interest-bearing obligations and an INCREASE DECREASE of \$ in your participation in Treasury Bills, making a net INCREASE DECREASE of \$ in your total participation in the System Account. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today, as of January 1, 1951.

	<u>INTEREST-BEARING SECURITIES</u>	<u>TREASURY BILLS</u>	<u>TOTAL</u>
ERICKSON, BOSTON	INCREASE \$39,720,000	DECREASE \$ 612,000	INCREASE \$ 39,108,000
WILLIAMS, PHILADELPHIA	DECREASE 69,760,000	DECREASE 4,454,000	DECREASE 74,214,000
GIDNEY, CLEVELAND	INCREASE 13,909,000	INCREASE 888,000	INCREASE 14,797,000
LEACH, RICHMOND	INCREASE 36,760,000	INCREASE 2,347,000	INCREASE 39,107,000
McLARIN, ATLANTA	INCREASE 7,695,000	INCREASE 491,000	INCREASE 8,186,000
YOUNG, CHICAGO	DECREASE 48,565,000	DECREASE 3,101,000	DECREASE 51,666,000
DAVIS, ST. LOUIS	DECREASE 12,506,000	INCREASE 4,770,000	DECREASE 7,736,000
PEYTON, MINNEAPOLIS	INCREASE 15,721,000	INCREASE 1,004,000	INCREASE 16,725,000
LEADY, KANSAS CITY	INCREASE 13,266,000	INCREASE 847,000	INCREASE 14,113,000
GILBERT, DALLAS	INCREASE 47,864,000	INCREASE 3,057,000	INCREASE 50,921,000
EARNHART, SAN FRANCISCO	INCREASE 140,552,000	INCREASE 3,406,000	INCREASE 143,958,000

HOUSE.

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1951
(In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minneap- olis	Kansas City	Dallas	San Francisco
A. Estimated expenses and dividends, 1951:													
1. Expenses	85,085	6,185	17,955	5,270	7,862	5,932	4,783	12,853	5,006	2,881	4,194	4,067	8,097
2. Dividends	13,489	733	4,407	941	1,320	589	535	1,719	443	298	496	574	1,434
3. Total expenses and dividends	98,574	6,918	22,362	6,211	9,182	6,521	5,318	14,572	5,449	3,179	4,690	4,641	9,531
B. Estimated earnings, 1951, other than on Government securities	2,278	83	829	152	187	118	122	209	199	122	156	33	68
C. "A-3" minus "B"	96,296	6,835	21,533	6,059	8,995	6,403	5,196	14,363	5,250	3,057	4,534	4,608	9,463
D. Ratios (per cent) based on "C"	100.0	7.0979	22.3613	6.2920	9.3410	6.6493	5.3959	14.9155	5.4519	3.1746	4.7084	4.7852	9.8270
I. Allocation of Interest-Bearing Securities													
E. Allocation of interest-bearing securities on basis of "D"	19,480,496	1,382,706	4,356,092	1,225,713	1,819,673	1,295,317	1,051,148	2,905,613	1,062,057	618,428	917,220	932,181	1,914,348
F. Present allocations	19,480,496	1,342,986	4,540,748	1,295,473	1,805,764	1,258,557	1,043,453	2,954,178	1,074,563	602,707	903,954	884,317	1,773,796
G. Change in allocations	--	+39,720	-184,656	-69,760	+13,909	+36,760	+7,695	-48,565	-12,506	+15,721	+13,266	+47,864	+140,552
II. Allocation of Treasury Bills													
H. Allocation of Treasury bills on basis of "D"	1,243,971	88,296	278,168	78,271	116,199	82,715	67,123	185,545	67,820	39,491	58,571	59,527	122,245
I. Portion that Banks cannot take due to low reserve ratios*	3,149	3,149											
J. Distribution of "I" to Banks with highest reserve ratios	3,149		3,149										
K. Final allocation of Treasury bills ("H" minus "I" plus "J")	1,243,971	85,147	281,317	78,271	116,199	82,715	67,123	185,545	67,820	39,491	58,571	59,527	122,245
L. Present allocations	1,243,971	85,759	289,960	82,725	115,311	80,368	66,632	188,646	63,050	38,487	57,724	56,470	118,839
M. Change in allocations	--	-612	-8,643	-4,454	+888	+2,347	+491	-3,101	+4,770	+1,004	+847	+3,057	+3,406
III. Total Allocation of System Account Securities													
N. Total allocation of System Account ("E" plus "K")	20,724,467	1,467,853	4,637,409	1,303,984	1,935,872	1,378,032	1,118,271	3,091,158	1,129,877	657,919	975,791	991,708	2,036,593
O. Present allocations	20,724,467	1,428,745	4,830,708	1,378,198	1,921,075	1,338,925	1,110,085	3,142,824	1,137,613	641,194	961,678	940,787	1,892,635
P. Change in allocations	--	+39,108	-193,299	-74,214	+14,797	+39,107	+8,186	-51,666	-7,736	+16,725	+14,113	+50,921	+143,958

* Based on note and deposit liability and reserve figures on December 28, 1950.

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333.343

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

January 2, 1951

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account as of January 1, 1951, will be as follows, in thousands of dollars:

	<u>Interest-bearing securities</u>	<u>Treasury bills</u>	<u>Total</u>
Boston	+39,720	-612	+39,108
New York	-184,656	-8,643	-193,299
Philadelphia	-69,760	-4,454	-74,214
Cleveland	+13,909	+888	+14,797
Richmond	+36,760	+2,347	+39,107
Atlanta	+7,695	+491	+8,186
Chicago	-48,565	-3,101	-51,666
St. Louis	-12,506	+4,770	-7,736
Minneapolis	+15,721	+1,004	+16,725
Kansas City	+13,266	+847	+14,113
Dallas	+47,864	+3,057	+50,921
San Francisco	+140,552	+3,406	+143,958

added item

Horbert

FILE COPY

FILED IN FILES SECTION
JAN 3 1951
333.343

January 2, 1951

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

There is enclosed a statement showing adjustments to be made in allocations of Government securities in the System Open Market Account as of January 1, 1951, prepared in accordance with the procedure approved by the System Open Market Committee December 9, 1947. The figures shown have been discussed over the telephone by representatives of your office and of this office.

Very truly yours,

(Signed) J. E. Horbett

J. E. Horbett,
Assistant Director,
Division of Bank Operations.

Enclosure.

FILE COPY

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1951
(In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minneap- olis	Kansas City	Dallas	San Francisco
A. Estimated expenses and dividends, 1951:													
1. Expenses	85,085	6,185	17,955	5,270	7,862	5,932	4,783	12,853	5,006	2,881	4,194	4,067	8,097
2. Dividends	13,489	733	4,407	941	1,320	589	535	1,719	443	298	496	574	1,434
3. Total expenses and dividends	98,574	6,918	22,362	6,211	9,182	6,521	5,318	14,572	5,449	3,179	4,690	4,641	9,531
B. Estimated earnings, 1951, other than on Government securities	2,278	83	829	192	187	118	122	209	199	122	156	33	68
.. "A-3" minus "B"	96,296	6,835	21,533	6,059	8,995	6,403	5,196	14,363	5,250	3,057	4,534	4,608	9,463
D. Ratios (per cent) based on "C"	100.0	7.0979	22.3613	6.2920	9.3410	6.6493	5.3959	14.9155	5.4519	3.1746	4.7084	4.7852	9.8270
I. Allocation of Interest-Bearing Securities													
E. Allocation of interest-bearing securities on basis of "D"	19,480,496	1,382,706	4,356,092	1,225,713	1,819,673	1,295,317	1,051,148	2,905,613	1,082,057	618,428	917,220	992,181	1,914,348
F. Present allocations	19,480,496	1,342,986	4,540,748	1,295,473	1,805,764	1,258,557	1,043,453	2,954,178	1,074,563	602,707	903,954	884,317	1,773,796
G. Change in allocations	--	+39,720	-184,656	-69,760	+13,909	+36,760	+7,695	-48,565	-12,506	+15,721	+13,266	+47,864	+140,552
II. Allocation of Treasury Bills													
H. Allocation of Treasury bills on basis of "D"	1,243,971	88,296	278,168	78,271	116,199	82,715	67,123	185,545	67,820	39,491	58,571	59,527	122,245
I. Portion that Banks cannot take due to low reserve ratios*	3,149	3,149											
J. Distribution of "I" to Banks with highest reserve ratios	3,149		3,149										
K. Final allocation of Treasury bills ("H" minus "I" plus "J")	1,243,971	85,147	281,317	78,271	116,199	82,715	67,123	185,545	67,820	39,491	58,571	59,527	122,245
L. Present allocations	1,243,971	85,759	289,960	82,725	115,311	80,368	66,632	188,646	63,050	38,487	57,724	56,470	118,839
M. Change in allocations	--	-612	-8,643	-4,454	+888	+2,347	+491	-3,101	+4,770	+1,004	+847	+3,057	+3,406
III. Total Allocation of System Account Securities													
N. Total allocation of System Account ("E" plus "K")	20,724,467	1,467,853	4,637,409	1,303,984	1,935,872	1,378,032	1,118,271	3,091,158	1,149,877	657,919	975,791	991,708	2,036,593
O. Present allocations	20,724,467	1,428,745	4,830,708	1,378,198	1,921,075	1,338,925	1,110,085	3,142,824	1,137,613	641,194	961,678	940,787	1,892,635
P. Change in allocations	--	+39,108	-193,299	-74,214	+14,797	+39,107	+8,186	-51,666	-7,736	+16,725	+14,113	+50,921	+143,958

* Based on note and deposit liability and reserve figures on December 28, 1950.

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REC'D IN FILES SECTION
 JUL 28 1950
 333,343

July 21, 1950

Mr. Leonard

Allocation of securities in

M. B. Daniels

the System Open Market Account

Mr. Behrens of the Securities Department of the New York Reserve Bank telephoned not long ago and stated that he had been making some comparisons of Federal Reserve Bank expenses so far this year with the budgeted expenses used for the January 1 reallocation. He was curious about certain rather large differences between the budgeted expenses and the rate of actual expense. I told him that I had been planning to make similar computations and would let him know what we found out. The apparent overestimate of expenses by one of the Banks he mentioned, Cleveland, could, I told him at the time, probably be explained by the Bank's building modernization program, which would be reflected mostly in expenses for subsequent months.

On the basis of expenses for the first five months, it would appear that the budget figures used in the January 1 reallocation were overestimated in every case, the minimum being \$10,000 at Boston and the maximum \$1,002,000 at Chicago. Differences over \$200,000 were as follows:

New York	\$672,000	Chicago	\$1,002,000
Philadelphia	456,000	Dallas	233,000
Cleveland	830,000	San Francisco	348,000
Atlanta	243,000		

Using the first quarter's functional expense reports, we endeavored to ascertain the principal reasons for these large differences. Mr. Behrens told me that the overestimate at New York was the result of the salary schedule, and this seems to be the case as the overestimates are rather evenly spread and every function except General Overhead and Federal Reserve Note Issues is running under the estimates. At Philadelphia, about half of the overestimate is in the Federal Reserve Note Issues function, with most of the remainder in Check Collection and Provision of Space. At Cleveland, as we expected, over half of the overestimate was in the Provision of Space function. The only other relatively large overestimate was in the Check Collection function. At Atlanta the function running farthest below the estimate was Federal Reserve Note Issues, which accounts for over half the total. The total overestimate at Chicago is accounted for principally by Federal Reserve Note Issues and Check Collection (about one-third each of the total), and Currency and Coin functions. At Dallas the Provision of Space function accounted for about three-fourths of the total overestimate. At San Francisco most of the overestimate was in the Provision of Space function.

FILE COPY

Mr. Leonard

- 2 -

Actual earnings other than on Government securities for the first five months were running about 15 per cent under the estimates used in the January 1 reallocation, which tended to offset the over-estimates of expenses to some extent at most Banks. Ratios used in the January 1 reallocation together with ratios computed on the basis of the first five months' expenses, dividends, and earnings other than on Government securities are given below:

<u>Federal Reserve Bank</u>	<u>Reallocation</u>	<u>Actual January-May</u>
Boston	6.8940	7.1380
New York	23.3092	23.7920
Philadelphia	6.6501	6.3488
Cleveland	9.2696	8.7531
Richmond	6.4606	6.6640
Atlanta	5.3564	5.3633
Chicago	15.1648	14.6226
St. Louis	5.5161	5.7171
Minneapolis	3.0939	3.1373
Kansas City	4.6403	4.8310
Dallas	4.5395	4.4900
San Francisco	9.1055	9.1428
Total	100.0	100.0

Since the largest difference in these ratios is not much more than one-half of one per cent, it is believed there is no need for a reallocation at this time.

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FOR FILES
M. B. Daniels

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

REC'D IN FILES SECTION
 JAN 3 1950
 111

January 3, 1950

Rouse - New York

This will confirm understanding in telephone conversation that adjustments of participations in System Account as of January 1, 1950, will be as follows, in thousands of dollars:

	<u>Interest-bearing securities</u>	<u>Treasury bills</u>	<u>Total</u>
Boston	-675	-232	-907
New York	-54,788	-18,824	-73,612
Philadelphia	-22,727	-7,809	-30,536
Cleveland	+6,536	+2,246	+8,782
Richmond	+5,748	+1,975	+7,723
Atlanta	-688	-237	-925
Chicago	+34,169	+11,740	+45,909
St. Louis	+15,728	+5,404	+21,132
Minneapolis	-20,156	-6,925	-27,081
Kansas City	-27,619	-9,490	-37,109
Dallas	+30,078	+10,335	+40,413
San Francisco	+34,394	+11,817	+46,211

Leonard

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Handwritten initials and signatures:
 [Signature]
 [Signature]
 [Signature]

Mr. Leonard
REC'D IN RECORDS SECTION
Mr. **APR 26 1968**
Mrs. Smith
335,317

**FEDERAL RESERVE BANK
OF NEW YORK**

NEW YORK 45, N.Y.

January 4, 1950.

Dear Mr. Leonard:

We received your letter of January 3, 1950 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on January 3, 1950, as of January 1, 1950, pursuant to the procedure approved at the meeting of the Federal Open Market Committee on December 9, 1947.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on January 3, 1950.

Very truly yours,

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

Mr. R. F. Leonard, Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Enclosures (5)

Directive #1

ISC. 140A-80M-5-46

FEDERAL RESERVE BANK OF NEW YORK

FILED IN RECORDS SECTION
APR 26 1968

- 45

January 4, 1950.

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

Dear Mr. Williams:

In accordance with our telegram of January 3, 1950,
I enclose herewith computation of the readjustments made on
January 3, 1950, as of January 1, 1950, in the participations
of the Federal Reserve Banks in the System Open Market port-
folio.

Very truly yours,

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

Enclosure

YD

FEDERAL RESERVE BANK OF NEW YORK

SECURITIES DEPARTMENT

RHB: FD

CHARGE TO "BAF"

REC'D IN RECORDS SECTION
APR 26 1968

JANUARY 3, 1950

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

Readjustment of participations in Government securities held in System Account is being made today as of January 1, 1950 under the procedure for reallocation of Government securities approved by the Federal Open Market Committee December 9, 1947. The computations showing adjustments made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on January 4, 1950. These computations indicate an **INCREASE** of \$ in your participation in interest-bearing obligations and an **DECREASE** of \$ in your participation in Treasury Bills, making a net **INCREASE** of \$ in your total participation in the System Account. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today, as of January 1, 1950.

	<u>INTEREST-BEARING SECURITIES</u>	<u>TREASURY BILLS</u>	<u>TOTAL</u>
ERICKSON, BOSTON	DECREASE \$ 675,000	DECREASE \$ 232,000	DECREASE \$ 907,000
WILLIAMS, PHILADELPHIA	DECREASE 22,727,000	DECREASE 7,809,000	DECREASE 30,536,000
GIBNEY, CLEVELAND	INCREASE 6,536,000	INCREASE 2,246,000	INCREASE 8,782,000
LEACH, RICHMOND	INCREASE 5,748,000	INCREASE 1,975,000	INCREASE 7,723,000
McLAREN, ATLANTA	DECREASE 688,000	DECREASE 237,000	DECREASE 925,000
YOUNG, CHICAGO	INCREASE 34,169,000	INCREASE 11,740,000	INCREASE 45,909,000
DAVIS, ST. LOUIS	INCREASE 15,728,000	INCREASE 5,404,000	INCREASE 21,132,000
PEYTON, MINNEAPOLIS	DECREASE 20,156,000	DECREASE 6,925,000	DECREASE 27,081,000
LEEDY, KANSAS CITY	DECREASE 27,619,000	DECREASE 9,490,000	DECREASE 37,109,000
GILBERT, DALLAS	INCREASE 30,078,000	INCREASE 10,335,000	INCREASE 40,413,000
BARHART, SAN FRANCISCO	INCREASE 34,394,000	INCREASE 11,817,000	INCREASE 46,211,000

HOUSE

REC'D IN FILES SECTION
JAN 4 1950
333,342

January 3, 1950.

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

There is enclosed a statement showing adjustments to be made in allocations of Government securities in the System Open Market Account as of January 1, 1950, prepared in accordance with the procedure approved by the System Open Market Committee December 9, 1947. The figures shown have been discussed over the telephone by representatives of your office and of this office.

Very truly yours,

R. F. Leonard, Director,
Division of Bank Operations.

Enclosure

MD:jd
RFL

FILE COPY

FOB FILES
L. R. Smith

CONFIDENTIAL
 RECD IN FILES SECTION
 1950
 4

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1950
 (In thousands of dollars)

	System	Boston	New York	Phila- delphia	Clevo- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
Estimated expenses and dividends, 1950:													
1. Expenses	81,075	5,631	17,980	5,264	7,662	5,494	4,459	12,428	4,695	2,571	4,098	3,661	7,174
2. Dividends	12,636	720	4,346	905	1,166	553	494	1,608	413	277	443	907	1,204
3. Total expenses and dividends	93,711	6,351	22,326	6,169	8,828	6,047	4,953	14,036	5,108	2,848	4,541	4,568	8,378
Estimated earnings, 1950, other than on Government securities													
"A-3" minus "B"	90,209	6,219	21,027	5,999	8,362	5,828	4,832	13,680	4,976	2,791	4,186	4,095	8,214
B. Ratios (per cent) based on "C"	100.0	6.840	23.302	6.6501	9.2696	6.4606	5.3564	15.1648	5.5161	3.0959	4.6405	4.5395	9.1055

I. Allocation of Interest-Bearing Securities

E. Allocation of interest-bearing securities on basis of "D"	14,055,350	968,976	3,276,190	954,695	1,302,875	908,060	752,861	2,131,466	775,307	434,898	652,210	638,042	1,279,810
F. Present allocations	14,055,350	969,651	3,330,978	957,422	1,296,339	902,312	753,549	2,097,297	759,579	455,014	679,829	607,964	1,245,416
G. Change in allocations	--	-675	-54,788	-22,727	+6,536	+5,748	-688	+34,169	+15,728	-20,156	-27,619	+30,078	+34,394

II. Allocation of Treasury Bills

H. Allocation of Treasury bills on basis of "D"	4,829,247	332,928	1,125,659	321,150	447,652	311,998	258,674	732,346	266,386	149,412	224,091	219,224	439,727
I. Present allocations	4,829,247	333,160	1,144,483	328,959	445,406	310,023	258,911	720,606	260,982	156,337	233,581	208,889	427,910
J. Change in allocations	--	-232	-18,824	-7,809	+2,246	+1,975	-237	+11,740	+5,404	-6,925	+9,510	+10,335	+11,817

III. Total Allocation of System Account Securities

K. Total allocation of System Account ("E" plus "H")	18,884,597	1,301,904	4,401,849	1,255,845	1,750,527	1,220,058	1,011,535	2,863,812	1,041,693	584,270	876,301	857,266	1,719,537
L. Present allocations	18,884,597	1,302,811	4,475,461	1,286,381	1,741,745	1,212,335	1,012,460	2,817,903	1,020,561	611,351	913,410	816,853	1,673,326
M. Change in allocations	--	-907	-73,612	-30,536	+8,782	+7,723	-925	+45,909	+21,132	-27,081	-37,109	+40,413	+46,211

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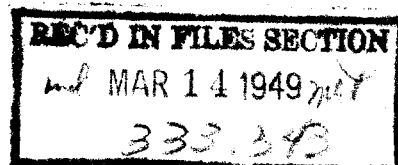
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 J. J. Smith

[Handwritten signatures]

March 9, 1949

Mr. Leonard

Mr. Daniels



In Mr. Horbett's memorandum to you on February 28, 1949, he mentioned that Mr. Rouse had informed the Federal Open Market Committee that the probable increase in expenses over the estimated budget expenses at the San Francisco and Kansas City Banks would be considered in reviewing the need for a reallocation of the System Open Market Account before the end of this year.

Rather infrequently in past reallocations we have made adjustments in estimated expenses. This procedure seems to be undesirable because it becomes difficult to decide where it should be stopped inasmuch as Reserve Banks interested in getting increased participations would more than likely be continually calling our attention to prospective increases in expenses of one kind or another. Besides it does seem reasonable to assume that the Federal Open Market Committee is endeavoring to maintain at a minimum the System reallocations on the basis of the formula adopted at its December 9, 1947, meeting.

For your information, there are given below the occasional adjustments made during the last ten years:

1942 - December 1, November 1, October 1, July 1, April 1.

Current expenses at New York adjusted by adding \$480,000 thereto to cover extraordinary depreciation charges on air conditioning equipment. (This would be comparable to the present Kansas City situation. It is not likely, however, that the air conditioning installations at Kansas City will be completed this year.)

1941 - October 1, July 1, April 1, January 1.

Added \$500,000 to current expenses for New York due to prospective increase in annual depreciation charges and in repairs and alterations in connection with air conditioning the New York building. Added \$120,000 to St. Louis current expenses in order to complete the setting aside of a 100 per cent reserve on fixed machinery and equipment in connection with air conditioning head office and branch buildings.

- January 1.

Deducted \$70,000 from current expenses for Chicago because of temporary increase for months of September to November, inclusive, in depreciation

FILE COPY

Mr. Leonard

- 2 -

charges on fixed machinery and equipment in the Chicago building.

1940 - October 1, July 1, April 1, January 1.

Added \$150,000 to St. Louis current expenses due to prospective increase in depreciation of fixed machinery and equipment because of the installation of air conditioning at the head office and branches.

- January 1.

Deducted from Chicago current expenses \$44,000 in view of an adjustment in annual depreciation charges on the Chicago and Detroit buildings.

1939 - October 1, July 1.

Added \$70,000 to Atlanta current expenses to cover cost of improvements to branch buildings.

- October 1.

Deducted \$25,000 from current earnings at Richmond due to recent falling off in earnings on industrial advances.

- July 1.

Added \$62,000 to current expenses at St. Louis and \$4,000 at Kansas City due to expected increases in depreciation on fixed machinery and equipment for the year.

- April 1.

Added \$70,000 to current expenses at St. Louis and \$90,000 to current expenses at Kansas City due to expected increases in depreciation on fixed machinery and equipment for the year. Deducted \$180,000 from current expenses at Atlanta and \$70,000 from current expenses at Chicago in view of unusually large amounts reported for furniture and equipment in November and December.

- January 1.

Added \$60,000 to current expenses at Kansas City to cover an anticipated increase in depreciation.


RFF/clw

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REC'D IN FILES SECTION
 7 MAR 1 1949
 333.343

February 28, 1949

Mr. Leonard

J. E. Horbett

In your absence this afternoon, Mr. Rouse talked with me about the possible need of reviewing before the end of the year the reallocation of securities in the open market account. I understand that he had indicated at a meeting of the Open Market Committee this morning that he had reviewed the matter and, on the basis of existing information, saw no probable need of making a reallocation before the end of the year. At that point Mr. Earhart said that their building operations at Portland and Seattle might result in a considerable increase in non-capitalized expenditures; he indicated that this had been the general experience when new buildings were erected to meet expanded operations. Such additional expenses presumably had not been taken into account in the last annual reallocation of the System Open Market Account, if the reallocation was based on 1949 expenses estimated from the Federal Reserve Banks' budgets. Mr. Leedy said that expenses of the Federal Reserve Bank of Kansas City probably also would be increased as a result of the air-conditioning program which has been authorized.

I understand from Mr. Rouse that he told the Conference the possibility of substantially increased expenses at San Francisco and Kansas City would be taken into account in reviewing the need of a reallocation of the System Open Market Account before the end of the year. He asked that the matter be brought to your attention, since the computations underlying the reallocation are made by Mr. Daniels in consultation with Mr. Behrens of the Federal Reserve Bank of New York.

Jeh

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JEH:st

DECLASSIFIED
Authority E.O. 12958

Mr. Leonard
REC'D IN RECORDS SECTION
Mr. Daniels ✓
File APR 8 1968
Mrs. Smith
393,343 *OK*

FEDERAL RESERVE BANK
OF NEW YORK

NEW YORK 45, N.Y.

January 5, 1949.

Dear Mr. Leonard:

We received your letter of January 3, 1949 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on January 3, 1949, as of January 1, 1949, pursuant to the procedure approved at the meeting of the Federal Open Market Committee on December 9, 1947.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on January 3, 1949.

Very truly yours,
Robert G. Rouse
Robert G. Rouse,
Manager, System Open
Market Account.

Mr. R. F. Leonard, Director,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Enclosures (5)

Director's 1

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MISC. 140A-80M-5-46

FEDERAL RESERVE BANK OF NEW YORK

REC'D BUSINESS SECTION
45
APR 26 1968

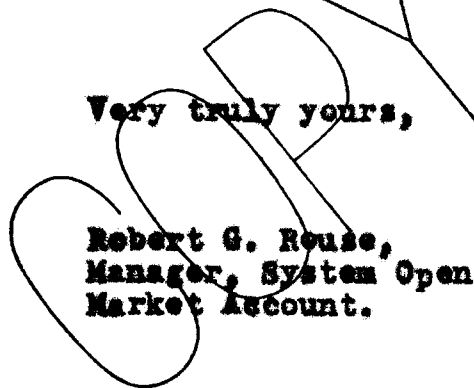
January 5, 1949.

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

Dear Mr. Williams:

In accordance with our telegram of January 3, 1949,
I enclose herewith computation of the readjustments made on
January 3, 1949, as of January 1, 1949, in the participations
of the Federal Reserve Banks in the System Open Market port-
folio.

Very truly yours,



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

Enclosure

FD

Directive #1

DECLASSIFIED
 Authority E.O. 12958

REC'D IN RECORDS SECTION
APR 8 1968

SECURITIES DEPARTMENT
 RRB:RM CHARGE TO "SAE"

JANUARY 3, 1949

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

Readjustment of participations in Government securities held in System Account is being made today as of January 1, 1949 under the procedure for reallocation of Government securities approved by the Federal Open Market Committee December 9, 1947. The computations showing adjustments made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on January 5, 1949. These computations indicate an INCREASE in your participation in interest-bearing obligations and an INCREASE in your participation in Treasury Bills, making a net INCREASE in your total participation in the System Account. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today, as of January 1, 1949.

	<u>INTEREST-BEARING SECURITIES</u>	<u>TREASURY BILLS</u>	<u>TOTAL</u>
BRICKSON, BOSTON	INCREASE \$31,479,000	DECREASE \$31,479,000	-0-
WILLIAMS, PHILADELPHIA	DECREASE 59,104,000	DECREASE 18,174,000	DECREASE \$77,278,000
GIDNEY, CLEVELAND	DECREASE 64,939,000	DECREASE 19,963,000	DECREASE 84,907,000
LEACH, RICHMOND	DECREASE 13,331,000	DECREASE 4,099,000	DECREASE 17,430,000
McLARIN, ATLANTA	INCREASE 62,102,000	INCREASE 19,096,000	INCREASE 81,198,000
YOUNG, CHICAGO	INCREASE 127,219,000	INCREASE 21,498,000	INCREASE 148,717,000
DAVIS, ST. LOUIS	DECREASE 20,877,000	DECREASE 6,426,000	DECREASE 27,323,000
PEYTON, MINNEAPOLIS	INCREASE 31,479,000	INCREASE 9,681,000	INCREASE 41,160,000
LEEDY, KANSAS CITY	INCREASE 31,355,000	INCREASE 9,641,000	INCREASE 40,996,000
GILBERT, DALLAS	DECREASE 36,833,000	DECREASE 11,326,000	DECREASE 48,159,000
EARRHART, SAN FRANCISCO	DECREASE 38,706,000	INCREASE 22,832,000	DECREASE 15,874,000

HOUSE.

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Authority E.O. 12958

REC'D AND FILED SECTION
JAN 4 1949
333.343

49

January 3, 1949

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

There is enclosed a statement showing adjustments to be made in allocations of Government securities in the System Open Market Account as of January 1, 1949, prepared in accordance with the procedure approved by the System Open Market Committee December 9, 1947. The figures shown have been discussed over the telephone by representatives of your office and of this office.

Very truly yours,

B. F. Leonard, Director,
Division of Bank Operations.

Enclosure.

mf
mf/oa

RF

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FOR FILES
D. L. Werner

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1949
(In thousands of dollars)

DECLASSIFIED
Authority E.O. 12958

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
Estimated expenses and dividends, 1949:													
1. Expenses	77,533	5,386	17,472	5,214	7,278	5,165	4,287	11,730	4,383	2,556	4,054	3,307	6,701
2. Dividends	12,069	682	4,160	881	1,144	522	1,72	1,520	1,01	267	418	471	1,131
3. Total expenses and dividends	89,602	6,068	21,632	6,095	8,422	5,687	4,759	13,250	4,784	2,823	4,472	3,778	7,832
Estimated earnings, 1949, other than on Government securities													
"A" minus "B"	5,704	280	1,749	380	684	301	261	731	250	107	124	149	398
	83,898	5,788	19,883	5,715	7,738	5,386	4,498	12,519	4,534	2,716	4,058	3,629	7,434
D. Ratios (per cent) based on "C"	100.0	6.8988	23.6990	6.8118	9.2231	6.4197	5.3613	14.9217	5.4042	3.2373	4.8368	4.3255	8.8608

I. Allocation of Interest-Bearing Securities

E. Allocation of interest-bearing securities on basis of "D"	17,815,340	1,231,114	4,229,167	1,215,589	1,645,894	1,115,617	956,742	2,662,828	964,398	577,707	863,144	771,900	1,581,240
F. Present allocations	17,815,340	1,199,635	4,278,991	1,274,693	1,710,833	1,158,948	894,640	2,535,609	985,295	516,228	831,789	808,733	1,619,916
G. Change in allocations	--	+31,479	-49,824	-59,104	-64,939	-13,331	+62,102	+127,219	-20,897	+31,479	+31,355	-36,833	-38,706

II. Allocation of Treasury Bills

H. Allocation of Treasury bills on basis of "D"	5,487,406	378,565	1,300,460	373,791	506,109	352,275	294,196	818,814	296,551	177,644	265,415	237,358	486,228
I. Portion that Banks cannot take due to low reserve ratios*	69,932	69,932											
J. Distribution of "I" to Banks with highest reserve ratios	69,932		26,069										43,863
K. Final allocation of Treasury bills ("H" minus "I" plus "J")	5,487,406	308,633	1,326,529	373,791	506,109	352,275	294,196	818,814	296,551	177,644	265,415	237,358	530,091
L. Present allocations	5,487,406	310,112	1,317,805	391,965	526,077	356,374	275,100	797,316	302,977	167,963	255,774	248,684	507,259
M. Change in allocations	--	-31,479	+8,724	-18,174	-19,968	-4,099	+19,096	+21,498	-6,426	+9,681	+9,641	-11,326	+22,832

III. Total Allocation of System Account Securities

N. Total allocation of System Account ("E" plus "I")	23,332,746	1,539,747	5,555,696	1,589,380	2,152,003	1,497,892	1,250,938	3,481,642	1,260,949	755,351	1,128,559	1,009,258	2,111,331
O. Present allocations	23,332,746	1,539,747	5,596,796	1,666,658	2,236,910	1,515,322	1,169,740	3,332,925	1,288,272	714,191	1,087,563	1,057,417	2,127,205
P. Change in allocations	--	--	-41,100	-77,278	-84,907	-17,430	+81,198	+148,717	-27,323	+41,160	+40,996	-48,159	-15,874

* Based on note and deposit liability and reserve figures on December 30, 1948.

Handwritten signature and initials

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

January 3, 1949

House - New York

This will confirm understanding in telephone conversation that
 as of January 1, 1949,
 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	+31,479	-31,479	—
New York	-49,824	+8,724	-41,100
Philadelphia	-59,104	-18,174	-77,278
Cleveland	-64,939	-19,968	-84,907
Richmond	-13,331	-4,099	-17,430
Atlanta	+62,102	+19,096	+81,198
Chicago	+127,219	+21,498	+148,717
St. Louis	-20,897	-6,426	-27,323
Minneapolis	+31,479	+9,681	+41,160
Kansas City	+31,355	+9,641	+40,996
Dallas	-36,833	-11,326	-48,159
San Francisco	-38,706	+22,832	-15,874

MTC
AKL

FILE COPY Leonard

added item
 FOR FILES
 D. L. Werner

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 Authority E.O. 12958

EC'D IN FILES SECTION
JAN 26 1948

REPORT TO FEDERAL OPEN MARKET COMMITTEE ON NEW FORMULA FOR
 ALLOCATING SECURITIES IN THE SYSTEM OPEN MARKET ACCOUNT

1-19-48

At the meeting of the Federal Open Market Committee in Washington on Tuesday, December 9, 1947, the Committee voted unanimously:

1. That interest bearing securities in the Account be allocated at the first of the year on the basis of the expense and dividend ratio of each Bank as against all the Banks; that this allocation be the only one for the year; and that the same basis of allocation continue in use. However, profits and losses on interest bearing securities would continue to be allocated on the basis of the average holding ratio for the preceding five years.
2. Holdings of Treasury bills would likewise be allocated on the expense and dividend ratios to the extent that the several Reserve Banks were able to acquire such securities within the limits of maintaining the reserve ratio of 35 per cent or such other percentage as the Committee may determine. Profit and loss on Treasury bills would be allocated on the basis of the current Treasury bill holding ratio of each Bank as of the day profit or loss is realized.

The above action was taken with the understanding that

1. The complete details would be worked out and the changed procedure would be put into effect on January 1, 1948, and
2. A full written statement of the procedure would be submitted at the next meeting of the Executive Committee and the Federal Open Market Committee for ratification.

In accordance with the above-mentioned action of the Federal Open Market Committee interest bearing securities in the System Open Market Account were allocated among the various Federal Reserve Banks as of January 1 in proportion to estimated expenses and dividends for the calendar year 1948 after deducting estimated earnings other than from Government securities, and Treasury bills in the System Account were likewise allocated except that necessary adjustments were made in the allocation of Treasury bills to prevent the reserve ratio of any Federal Reserve Bank from falling below 35 per cent. Estimated expenses were based on budget figures submitted by the various Federal Reserve Banks to the Board of Governors for the year 1948, and estimated dividends were based on paid-in capital as of the latest date for which the figures were available. #28

*orig. filed
 FOMC General*

*Presented at meeting of ex.com
 on Jan. 20, 1948 SJP*

FOMC
FOR FILES
 Gordon Grimwood
FOMC Head

DECLASSIFIED

Authority E.O. 12958

-2-

Adjustments in holdings of the Federal Reserve Banks in interest bearing securities and Treasury bills made necessary by changes in the amount of securities held in the System Open Market Account are made currently in the same ratio as was the allocation of interest bearing securities as of January 1. Adjustments in Treasury bill holdings are being made each Wednesday and are to be made also on month ends, as has been the practice for some time, to raise to the agreed upon minimum of 35 per cent the reserve ratios of any Banks that are below that level and also to restore, in so far as possible without reducing a Bank's reserve ratio below 35 per cent, the full participation in Treasury bills to which it is entitled when its participation has previously been reduced because of a low reserve ratio.

In accordance with the arrangement approved by the Federal Open Market Committee, profits and losses on interest bearing securities are being allocated on the basis of average daily holdings of interest bearing securities during the preceding five years. Profits and losses on Treasury bills are being allocated in proportion to Treasury bill holdings as of the day the profit or loss is realized which is the basis on which earnings on Treasury bills are accrued.

Inasmuch as current adjustments in holdings both of interest bearing securities and Treasury bills are being made on the same basis as was the January 1 reallocation, there will be no necessity of any further re-allocations of securities in the System Open Market Account during the calendar year 1948 unless it should become evident either that actual expenses and dividends are likely to deviate considerably from the estimates used as of January 1 or that earnings other than from the System Open Market Account are likely to be considerably greater than the approximately \$3,000,000 estimated as of January 1.

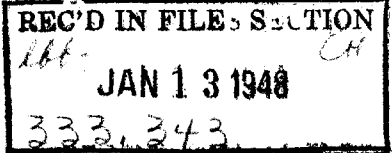
It is contemplated that this subject will receive further consideration during the remainder of the year with a view to the submission to the Federal Open Market Committee on or before its last meeting in 1948 of a revised formula for use beginning on or before January 1, 1949, in the event that experience indicates that the procedure now being followed is not altogether satisfactory.

R. G. Rouse

January 19, 1948.

E. L. Smead

DECLASSIFIED

Authority E.O. 12958

January 12, 1948.

Mr. J. W. Peyton, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Peyton:

In your wire of December 19, 1947, in reply to our wire of December 18, you stated that you believed it would be preferable to use actual expenses for a preceding period rather than 1948 budget estimates in reallocating securities in the System Open Market Account. In replying to our telegram, ten of the Banks unqualifiedly agreed to the use of budget figures and one Federal Reserve Bank agreed to their use but said that its budget had been submitted on rather a tight basis. In the circumstances the budget figures were used. In the case of your Bank, the percentage would have been approximately the same whether it was determined on the basis of the budget submitted or actual expenses for a prior period. In some cases we thought that the budget figures were better, particularly because they were more realistic when related to the cost of printing Federal Reserve notes for 1948. After we have had some experience under the new plan, we shall, of course, again review the desirability of using expenses for a past period rather than budget figures.

Very truly yours,

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

ELS:jbs

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REC'D IN FILES SECTION

JAN 9 1948

January 9, 1948.

Mr. Smead

Mr. Van Fossen

That the treatment of earnings other than from Governments in the allocation of System Account holdings is not a matter of no consequence I believe will be seen from the following. Of course, so far as 1948 is concerned the consequences of deducting such earnings from expenses and dividends will not be serious. For convenience sake in the following I have designated as Plan 2 the arrangement under which earnings other than those from Governments are deducted from estimated expenses and dividends and as Plan 1 the arrangement whereby, instead, allowance is made for such earnings in the allocation of Treasury bills.

If there were no earnings other than from Governments, total earnings would be distributed in exact proportion to expenses and dividends under either plan.

- (a) Under Plan 1 this would still be true if there are earnings from other sources unless such earnings were exceedingly large. The formula in effect merely substitutes the earnings from other sources for an equal amount of earnings on Treasury bills.
- (b) Under Plan 2 this would not be true if there are any earnings from other sources, irrespective of amount.

If earnings from other sources were large for any individual

Bank

- (a) Under Plan 1 each Bank would still get a share of the earnings proportionate to its estimated expenses and dividends.
- (b) Under Plan 2 if estimated earnings from other sources for any Bank equaled or exceeded its estimated expenses or dividends that Bank could get no participation in the System Account whatsoever and its earnings after expenses and dividends would be negligible, even though the

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FOR FILE
J. E. Smead

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Authority E.O. 12958

-2-

other Banks might have very substantial earnings remaining after expenses and dividends. If actual earnings from other sources fell substantially below estimates or if actual expenses and dividends greatly exceeded estimates, such a Bank might not even have enough earnings to cover actual expenses and dividends.

If actual earnings other than from Governments greatly exceeded estimates one or more reallocations would be necessary under either plan.

- (a) Under Plan 1 such reallocations would be confined to Treasury bills.
- (b) Under Plan 2 there would not appear to be any escape from reallocating interest-bearing securities as well as Treasury bills.

Either plan could fail of operating precisely as anticipated if earnings from other sources become very large and earnings from Treasury bills very small.

- (a) Under Plan 1 this would only mean that one or more Banks could not be allocated any Treasury bills initially because of its high earnings from other sources. It probably would get some in the end through necessary adjustments to maintain reserve ratios above 35 per cent. An exactly similar situation occurred on some reallocations in the past when we had option bills. Some Banks could not be given any participation initially in Treasury bills from the System account, but they got them through the adjustments to maintain reserve ratios.
- (b) Under Plan 2 the breakdown would come in having in an extreme case a Bank with no participation either in interest-bearing securities or Treasury bills, since its participation ratio would be zero. In a less extreme case the participation ratio would merely be very much reduced in the case of a Bank with relatively high earnings from other sources. This would reduce its participation in interest-bearing securities much below normal, a far more serious matter than inability to allot initially the full amount of Treasury bills that Plan 1 would call for if available.

VF:amr

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*Vau ✓
DL ✓
Mrs. Smead*

REC'D IN RECORDS SECTION
APR 26 1968
333,343
CK

FEDERAL RESERVE BANK
OF NEW YORK - 45

January 5, 1948.

Dear Mr. Smead:

We received your letter of January 2, 1948 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on January 2, 1948, as of January 1, 1948 pursuant to the procedure approved at the meeting of the Federal Open Market Committee on December 9, 1947.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on January 2, 1948.

Very truly yours,

L. R. Rounds
L. R. Rounds,
First Vice President.

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

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Authority E.O. 12958

1
/SC. 140A 100M-7-45

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN RECORDS SECTION
APR 26 1968

- - 45

January 5, 1948.

Dear Mr. Whittemore:

In accordance with our telegram of January 2, 1948,
I enclose herewith computation of the readjustments made on
January 2, 1948, as of January 1, 1948, in the participations
of the Federal Reserve Banks in the System Open Market port-
folio.

Very truly yours,

~~L. R. Rounds,
First Vice President.~~

Mr. Laurence F. Whittemore,
President, Federal Reserve Bank of Boston,
Boston, Massachusetts.

Enclosure.

RM

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 Authority E.O. 12958

MISC. 140A 100M-7-45

SECURITIES DEPARTMENT
 EVL:EM CHARGE TO '8 A D'

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN RECORDS SECTION
 APR 26 1968

JANUARY 2, 1948.

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

Readjustment of participations in Government securities held in System Account is as of January 1, 1948 being made today/under the procedure for reallocation of Government securities approved by the Federal Open Market Committee December 9, 1947. The computations showing adjustments made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on January 5, 1948. These computations indicate an INCREASE of \$ in your participation in interest-bearing obligations and an INCREASE of \$ in your participation in Treasury Bills, making a net INCREASE of \$ in your total participation in the System Account. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today, as of January 1, 1948.

	<u>INTEREST-BEARING SECURITIES</u>	<u>TREASURY BILLS</u>	<u>TOTAL</u>
WHITTEMORE, BOSTON	INCREASE \$24,031,000	DECREASE \$24,031,000	-0-
WILLIAMS, PHILADELPHIA	INCREASE 27,569,000	INCREASE 18,322,000	INCREASE \$45,891,000
GIDNEY, CLEVELAND	INCREASE 5,891,000	INCREASE 55,799,000	INCREASE 61,690,000
LEACH, RICHMOND	DECREASE 72,668,000	INCREASE 105,947,000	INCREASE 33,279,000
McLAREN, ATLANTA	DECREASE 91,968,000	INCREASE 41,580,000	DECREASE 50,388,000
YOUNG, CHICAGO	INCREASE 31,323,000	INCREASE 101,420,000	INCREASE 132,743,000
DAVIS, ST. LOUIS	DECREASE 24,714,000	INCREASE 24,714,000	-0-
PEYTON, MINNEAPOLIS	DECREASE 25,789,000	INCREASE 51,388,000	INCREASE 25,599,000
LEEDY, KANSAS CITY	DECREASE 18,661,000	INCREASE 10,486,000	DECREASE 8,175,000
GILBERT, DALLAS	DECREASE 90,655,000	INCREASE 90,655,000	-0-
EARHART, SAN FRANCISCO	DECREASE 4,481,000	INCREASE 52,261,000	INCREASE 47,780,000
	HOUSE		

DECLASSIFIED
Authority E.O. 12958

REC'D IN FILE SECTION
JAN 7 1948
333.343

January 2, 1948

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

There is enclosed a statement showing adjustments to be made in allocations of Government securities in the System Open Market Account as of January 1, 1948, prepared in accordance with the procedure approved by the System Open Market Committee December 9, 1947.

Very truly yours,

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

Enclosure

MSJ
ED/dlw

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FOR FILES
S. L. Trott

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1948
(In thousands of dollars)

CONFIDENTIAL

	System	Boston	New York	Phila- delphia	Cleve- land	Rish- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Estimated expenses and dividends, 1948:													
1. Expenses	70,106	4,717	15,588	4,989	6,873	4,773	3,997	10,081	4,201	2,225	3,579	3,185	6,268
2. Dividends	11,722	674	4,128	862	1,131	1,095	1,451	1,427	384	258	391	138	1,085
3. Total expenses and dividends	81,828	5,421	19,716	5,851	8,004	5,866	4,048	11,508	4,585	2,483	3,970	3,623	7,353
B. Estimated earnings, 1948, other than on Government securities	2,899	113	796	213	137	140	91	293	227	67	291	16	188
C. "A-3" minus "B"	78,929	5,306	18,926	5,638	7,867	5,726	3,957	11,215	4,358	2,416	3,679	3,577	7,165
D. Ratios (per cent) based on "C"	100.0	6.7224	23.9782	7.1430	9.5870	6.1944	5.0133	14.2088	5.5213	3.0609	4.6611	4.5319	9.0777

I. Allocation of Interest-Bearing Securities

E. Allocation of interest-bearing securities on basis of "D"	11,125,924	747,929	2,667,796	794,725	1,066,642	722,562	557,776	1,580,860	614,296	340,553	518,591	504,216	1,009,978
F. Present allocations	11,125,924	723,898	2,427,674	767,156	1,060,751	795,230	649,744	1,549,537	639,010	366,342	537,252	594,871	1,011,459
G. Change in allocations	--	+24,031	+240,122	+27,569	+5,891	-72,668	-91,968	+31,323	-24,714	-25,789	-18,661	-90,655	-4,481

II. Allocation of Treasury Bills

H. Allocation of Treasury bills on basis of "D"	11,433,410	768,600	2,741,526	816,688	1,096,121	742,531	573,191	1,624,550	651,273	349,965	532,923	518,151	1,037,891
I. Portion that Banks cannot take due to low reserve ratios*	90,576	20,721							37,638			32,217	
J. Distribution of "I" to Banks with highest reserve ratios	90,576							12,737					77,839
K. Final allocation of Treasury bills ("H" minus "I" plus "J")	11,433,410	747,879	2,741,526	816,688	1,096,121	742,531	573,191	1,637,287	593,635	349,965	532,923	485,934	1,115,730
L. Present allocations	11,433,410	771,910	3,270,067	798,366	1,040,322	636,584	531,611	1,535,867	568,921	298,577	522,437	395,279	1,063,469
M. Change in allocations	--	-24,031	-528,541	+18,322	+55,799	+105,947	+41,580	+101,420	+24,714	+51,388	+10,486	+90,655	+52,261

III. Total Allocation of System Account Securities

N. Total allocation of System Account ("K" plus "M")	22,559,334	1,495,808	5,409,322	1,611,413	2,162,763	1,465,093	1,104,967	3,218,147	1,207,931	698,518	1,051,514	990,150	2,125,700
O. Present allocations	22,559,334	1,495,808	5,697,741	1,565,592	2,101,073	1,431,814	1,181,353	3,085,404	1,207,931	664,919	1,059,689	990,150	2,077,928
P. Change in allocations	--	--	-288,419	+45,891	+61,690	+33,279	-50,388	+152,743	--	+25,999	-8,175	--	+47,780

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* Based on note and deposit liability and reserve figures on December 30.

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

January 2, 1948

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	+24,031	-24,031	—
New York	+240,122	-528,541	-288,419
Philadelphia	+27,569	+18,322	+45,891
Cleveland	+5,891	+55,799	+61,690
Richmond	-72,668	+105,947	+33,279
Atlanta	-91,968	+41,580	-50,388
Chicago	+31,323	+101,420	+132,743
St. Louis	-24,714	+24,714	—
Minneapolis	-25,789	+51,388	+25,599
Kansas City	-18,661	+10,486	-8,175
Dallas	-90,655	+90,655	—
San Francisco	-4,481	+52,261	+47,780

Sneed

FOR FILE
 S. L. Trott

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DEC 23 1947

December 23, 1947

Mr. Smead

Mr. Daniels

The recommendations for allocating securities in the System Account, which were recently approved by the Federal Open Market Committee, raise certain questions.

Periodic reallocations

Aside from interest-bearing securities, the recommendations do not call for, nor do they preclude, making quarterly reallocations as at present. The New York Bank believes the standard procedure should be to make no reallocations after the first of the year beyond the weekly and month-end adjustments in Treasury bill holdings to maintain the 35 per cent reserve ratio.

I favor a quarterly reallocation of Treasury bills. It is true that with 90 per cent of net earnings after dividends being paid to the Treasury there is less need for changing holdings of securities as actual expenses and dividends diverge from the estimates. Nevertheless, to omit reallocations entirely during the year would be going from one extreme to the other, inasmuch as we now make reallocations monthly during the last quarter of the year.

It is noted that differences between 1947 estimates of expenses and dividends used for the July 1 and the December 1 reallocations were as high as \$790,000. In terms of ratios of estimated expenses and dividends (carried to the closest 1/10 per cent) the greatest change amounted to 1.1 per cent, and there were only three Banks with changes smaller than 1/10 per cent. On present holdings of securities, a difference of 1/10 per cent in participation would amount to over \$21,000 a year in net earnings retained, that is, after dividends and interest on notes.

Expense and dividend ratios

The number of digits to be used in the expense and dividend ratio or ratios must be decided. There would be considerable merit in rounding those used for the allocation of interest-bearing securities, since this is a fixed allocation. However, I suggest carrying the ratios used for allocating both interest-bearing securities and Treasury bills to four places beyond the decimal point, as we now do with the average holding ratios.

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Mr. Smead

- 2 -

Basis for estimating expenses

In any reallocations of Treasury bills after January 1, a decision must be made as to how estimated expenses will be determined. I recommend using the present method of estimating expenses for the year in reallocations subsequent to January 1, because it uses actual expenses for the year to date.

Estimating other earnings

For the allocation of Treasury bills it will presumably be necessary to estimate earnings for the year other than on Government securities. I see no reason to depart from the method we have been using in making such estimates.

Purchases and sales of securities

Increases and decreases in holdings of interest-bearing securities should be allocated on the basis of the expense and dividend ratios used for the January 1 allocation of interest-bearing securities. Increases and decreases in holdings of Treasury bills should be allocated on the basis of the same ratios until any subsequent reallocation of Treasury bills, after which the expense and dividend ratios at the last preceding reallocation should be used.

A suggested stub for the January 1 reallocation is attached. This assumes that subsequent reallocations of Treasury bills will be made. If they are not, items "H-2" and "H-3" could be omitted.

Attachment


M D/dlw

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Suggested Stub For January 1, 1948, Reallocation

I. Allocation of Interest-Bearing Securities

- A. Pro rata participation (per cent) for year [on basis of line "G"]
- B. Allocation
- C. Present allocations
- D. Change in allocations

II. Allocation of Treasury Bills

- E. Estimated expenses, 1948
- F. Estimated dividends, 1948
- G. Estimated expenses and dividends
- H. Current earnings, 1948:
 - 1. Other than on Government securities (est.)
 - 2. On interest-bearing securities (est.)
 - 3. On Treasury bills, January 1
 - 4. Total
- I. Excess of "H-4" over "G"
- J. Estimated earnings on Treasury bills, 1948, after January 1
(\$) plus "I" allocated on basis of "G"
- K. Excess of "J" over "I"
- L. Allocation of Treasury bills in proportion to "K"
- M. Portion that Banks cannot take due to low reserve ratio*
- N. Distribution of "M" to Banks with highest reserve ratios
- O. Final allocation of Treasury bills ("L" minus "M" plus "N")
- P. Present allocations
- Q. Change in allocations

* Based on note and deposit liability and reserve figures on December 30.

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TELEGRAM
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1947 DEC 22 PM 12 39

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WA63GC61WASH M36 DLS 22-1119

SMEAD

REFERENCE YOUR TELEGRAM 18TH. THE PROPOSED PLAN FOR REALLOCATION
OF SECURITIES IN SYSTEM ACCOUNT AS OF JANUARY 1, 1948, IS
SATISFACTORY TO THIS BANK

GILBERT.

FOR FILES
M. B. Daniels

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1947 DEC 19 PM 4 37

WB17WASH B636 NY 19-351

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

SMEAD BOARD

12-18-47

REFERRING YOUR WIRE RE ALLOCATION OF SECURITIES THE ANSWER

IS YES

SPROUL.

FOR FILES
M. B. DUNN

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TELEGRAM
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1947 DEC 19 PM 3 36

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WA79GC23WASH H99 STL 19-206

~~SECRET~~ SMEAD

12-18-47

REURTEL DAVIS PROPOSED METHOD FOR REALLOCATION
OF SECURITIES IN SYSTEM ACCOUNT AS OF JANUARY 1 1948
IS SATISFACTORY TO OUR BANK

HITT.

FOR FILES
M. E. Daniels

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TELEGRAM
LEASED WIRE SERVICE
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1947 DEC 19 PM 2 26

WA69WASH RH 56
SMEAD

RICH 19-22 BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

PLAN FOR REALLOCATION OF SECURITIES IN SYSTEM ACCOUNT ~~ON~~
OUTLINED YOUR TELEGRAM 18TH SATISFACTORY TO THIS BANK. IT IS
ASSUMED YOU CONTEMPLATE DEDUCTING FROM THE TOTAL BUDGET FIGURES
ESTIMATED REIMBURSABLE EXPENSES AND RENTAL OF BANK OWNED
FURNITURE AND EQUIPMENT

LEACH.

FOR FILES
M. E. [unclear]

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1947 DEC 19 PM 2 22

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WA68G00BDWASH J101 KC 19-115

SMEAD

12-18-47

REPLYING YOUR WIRE, IT IS NOT FEASIBLE TO QUICKLY OBTAIN VIEWS
OUR BOARD OF ~~MEMBERS~~ DIRECTORS OR EXECUTIVE COMMITTEE ON PROPOSED
CHANGE IN MAKING ALLOCATIONS IN SYSTEM OPEN MARKET ACCOUNT,
~~MEMBERS~~ BUT FOR MY OWN PART I AM ENTIRELY AGREEABLE TO THE
CHANGE. PLEASE ADVISE IF ANYTHING FURTHER DESIRED ON OUR BEHALF
IN THIS CONNECTION

LEEDY.

FOR FILES
M. E. Daniels

DECLASSIFIED

Authority E.O. 12958

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DEC 24 1947

TELEGRAM 333.343
LEASED WIRE SERVICE
RECEIVED AT WASHINGTON

1947 DEC 19 PM 12 29

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WA58WASH C49 PHILA DEC 19-1225P
SMEAD

IT IS SATISFACTORY TO THIS BANK TO BASE REALLOCATION OF SECURITIES
IN SYSTEM ACCOUNT AS OF JANUARY 1, 1948, IN ACCORDANCE WITH THE
PLAN GIVEN IN YOUR TELEGRAM OF DECEMBER 18, 1947.

DAVIS.

FOR FILES
M. B. Daniels

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Authority E.O. 12958

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DEC 24 1947

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TELEGRAM
LEASED WIRE SERVICE
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1947 DEC 19 AM 11 35

WA39WASH B96 BOS 19-1115

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

SMEAD BOARD

12-18-47

WE ARE IN AGREEMENT WITH PROPOSITION TO HAVE REALLOCATION
OF SECURITIES IN SYSTEM ACCOUNT AS OF JANUARY 1 1948 BASED ON
1948 ESTIMATED EXPENSE AND DIVIDED REQUIREMENTS USING ESTIMATED
1948 BUDGET FIGURES

WHITTEMORE.

FOR FILES
M. B. Daniels

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Authority E.O. 12958

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DEC 24 1947

TELEGRAM
LEASED WIRE SERVICE
RECEIVED AT WASHINGTON

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1947 DEC 19 AM 10 00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WA25WASH F8 ATLA 19-956

SMEAD

PROPOSAL TO BASE REALLOCATION OF SECURITIES IN SYSTEM ACCOUNT AS OF
JANUARY 1, 1948 AS OUTLINED IN YOUR TELEGRAM OF DECEMBER 18 IS
SATISFACTORY TO THIS BANK

MCLARIN.

FOR FILES
M. E. D. 1947

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DEC 24 1947

TELEGRAM
LEASED WIRE SERVICE
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1947 DEC 19 AM 10 00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WA24G48BD WASH D14 CLEVE 19-951

SMEAD

RETEL DEC 18. PROPOSED BASE REALLOCATION OF SECURITIES SATISFACTORY
TO OUR OFFICERS. AM CONFIDENT DIRECTORS WOULD GIVE APPROVAL IF
NEEDED.

GIDNEY.

FOR FILE
M. B. Dangle's

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WB07

S006G11 WASH 119 MPLS 19-1023

SMEAD

YELLOW
Board of Governors
Federal Reserve Bank of St. Louis
1948

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DEC 24 1947

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JAN 13 1948
333.343

REURTEL DECEMBER 18 REALLOCATION OF SECURITIES IN SYSTEM ACCOUNT WE
BELIEVE IT WOULD BE PREFERABLE TO USE ACTUAL 1947 EXPENSES FOR
ELEVEN MONTHS PLUS ESTIMATE OF DECEMBER EXPENSE RATHER THAN 1948
BUDGET ESTIMATES OF THE RESERVE BANKS. IF CONSIDERED ADVISABLE 1948
EXPENSE ESTIMATES FOR ~~BUDGET~~ BASIS OF REALLOCATION OF SECURITIES IN
SYSTEM ACCOUNT COULD BE MADE ON EXPENSES SECOND HALF 1947, FIVE MONTHS
ACTUAL AND DECEMBER EXPENSE ESTIMATED. EXTENT TO WHICH RESERVE ~~BUDGET~~
BANKS HAVE ALLOWED FOR CONTINGENCIES IN 1948 BUDGETS AND FOR POTENTIAL
EXPANSION ARE NO DOUBT NOT PROPORTIONATE AND IF BUDGET FIGURES ARE
TO BE USED IN THE FUTURE FOR THE ALLOCATION OF SECURITIES IN SYSTEM
ACCOUNT, BUDGET ESTIMATES MIGHT BE MORE ~~LIBERAL~~ LIBERAL IN SOME CASES
THAN OTHERWISE. OUR PLAN WOULD USE AS A BASIS ACTUAL EXPERIENCE
RAHTER THAN ESTIMATES OF ANTICIPATED ACTIVITY AND CONDITIONS.

FOR FILES
M. E. Daniels

PEYTON

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1947 DEC 19 AM 9 29

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

W. S. [unclear]
W. [unclear]
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DEC 24 1947
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12-18-47

WA18G26WASH L115 SF 18-343

BOARD

REURTEL DECEMBER 18, WE HAVE SUBMITTED VERY TIGHT 1948 BUDGET FIGURES. HOWEVER, UNDER ASSUMPTION THAT OTHER RESERVE BANKS HAVE LIKEWISE SUBMITTED CLOSE BUDGET ESTIMATES IT IS SATISFACTORY TO US TO USE 1948 BUDGET FIGURES AS ESTIMATED EXPENSES FOR 1948 FOR PROPOSED REALLOCATION OF SECURITIES IN SYSTEM ACCOUNT. WE SUGGEST THAT A REVIEW MIGHT BE MADE ALONG ABOUT MIDYEAR TO SEE THAT THERE IS NOT SUFFICIENT VARIATION BETWEEN BUDGET ESTIMATES AND ACTUAL EXPENSES TO MAKE ANY MATERIAL DIFFERENCE IN THE ALLOCATION.

EARHART.

REC'D FILES
12-18-47

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DEC 19 1947
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TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

December 18, 1947

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

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

In accordance with action at meeting of Federal Open Market Committee on December 9, it is proposed to base reallocation of securities in System Account as of January 1, 1948, on 1948 estimated expense and dividend requirements, with, of course, necessary adjustments in allocations to prevent reserve ratio of any Bank from falling below 35 per cent, and to use the 1948 budget figures submitted to the Board as the estimated expenses for 1948. Is this satisfactory to your Bank?

tc

SMEAD

Copy filed
FOMC General

MD
cc

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FOR FILES
J. E. Smith

#27

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1947 DEC 18 PM 6 04

WB33G06WASH GX253 CGO 18-457

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

SMEAD - BOARD

12-18-47

YOUR WIRE CONCERNING REALLOCATION OF SECURITIES IN SYSTEM ACCOUNT
AS OF JANUARY 1, 1948, PLAN AS SUGGESTED IN YOUR WIRE SATISFACTORY
TO THIS BANK

YOUNG.

FOR FILES
M. B. Daniels

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DEC 19 1947
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TELEGRAM
LEASED WIRE SERVICE
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1947 DEC 18 PM 4 23

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WA02WASH B510 NY 18-411

MR SMEAD BOARD

See wire 12-18-47

LOOKS FINE. NO CHANGES TO SUGGEST

ROUSE .

FOR FILES
I. B. Smith

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

REC'D IN FILES SECTION
DEC 19 1947

December 18, 1947.

Rouse - New York

It is proposed to send following telegram to all Federal Reserve Banks regarding January 1 reallocation. Do you have any changes to suggest?

"In accordance with action at meeting of Federal Open Market Committee on December 9, it is proposed to base reallocation of securities in System Account as of January 1, 1948, on 1948 estimated expense and dividend requirements, with, of course, necessary adjustments in allocations to prevent reserve ratio of any Bank from falling below 35 per cent, and to use the 1948 budget figures submitted to the Board as the estimated expenses for 1948. Is this satisfactory to your Bank?"

SMEAD

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Handwritten signature
ELS: jbs

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JAN 8 1948

12-7-47

After reviewing the present plan of allocating securities in the System Open Market Account to ascertain whether any changes were desirable at this time and with a view to possible simplification of the formula and of the work involved in the reallocations, Mr. Smead and I make the following recommendation:

1. That interest bearing securities in the Account be allocated at the first of the year on the basis of the expense and dividend ratio of each Bank as against all the Banks; that this allocation be the only one for the year; and that the same basis of allocation continue in use. However, profits and losses on interest bearing securities would continue to be allocated on the basis of the average holding ratio for the preceding five years.
2. Holdings of Treasury bills would likewise be allocated on the expense and dividend ratios to the extent that the several Reserve Banks were able to acquire such securities within the limits of maintaining the reserve ratio of 35 per cent or such other percentage as the Committee may determine. Profit and loss on Treasury bills would be allocated on the basis of the current Treasury bill holding ratio of each Bank as of the day profit or loss is realized.

R. G. Rouse

December 9, 1947.

*Orig. filed**FOMC General*

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AD IN FILES SECTION
DEC 29 1947
FOMC General

FEDERAL RESERVE BANK
OF NEW YORK

December 5, 1947.

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

1 c

Dear Ed:

If the attached (1) and (2) are in accord with your understanding, could it not be mimeographed, with the following heading, for presentation on Tuesday?

After reviewing the present plan of allocating securities in the System Open Market Account to ascertain whether any changes were desirable at this time and with a view to possible simplification of the formula and of the work involved in the reallocations, Mr. Smead and I make the following recommendation:

Very truly yours,

Bob

Robert G. Rouse,
Vice President.

Attachment

Copy filed
333.343

Presented at meeting of the
ad com on Dec 9, 1947.
Also at meeting of full
committee on the
same date

FOMC file



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J. J. Van Fossen
Mr. Smead

FEDERAL RESERVE BANK
OF NEW YORK

REC'D IN FILES SECTION
DEC 5 1947 *ab*

Dec REC'D IN FILES SECTION
DEC 26 1947 *ab*
333.343

Dear Mr. Smead:

We received your letter of December 1, 1947 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on December 1, 1947 pursuant to the plan adopted at the meeting of the Federal Open Market Committee on September 21, 1944, as amended June 20, 1945.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on December 1, 1947.

Very truly yours,
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)



FOR FILES
M. B. Daniels

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MISC. 140A 100M-7-45

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN FILES SECTION
DEC 5 1947

REC'D IN FILES SECTION
DEC 26 1947

December 3, 1947.

Dear Mr. Williams:

In accordance with our telegram of December 1, 1947,
I enclose herewith computation of the readjustments made on
December 1, 1947 in the participations of the Federal Reserve
Banks in the System Open Market portfolio.

Very truly yours,

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

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

Enclosure.

RM

Handwritten initials "RGR" with a diagonal line through them.

FOR FILE
M. B. Daniels

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 Authority E.O. 12958

MISC. 140A 40M-12-44

**SECURITIES DEPARTMENT
 NYFD**

FEDERAL RESERVE BANK OF NEW YORK

CHANGE TO "S A D"

REC'D IN FILES SECTION
 DEC 5 1947
 REC'D IN FILES SECTION
 DEC 26 1947

DECEMBER 1, 1947.

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

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, as amended June 20, 1945. The computations showing adjustments made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on December 2, 1947. These computations indicate an **INCREASE** of \$ _____ in your participation in interest-bearing obligations and an **INCREASE** of \$ _____ in your participation in Treasury Bills, making a net **INCREASE** of \$ _____ in your total participation in the System Account. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today.

	<u>INTEREST-BEARING SECURITIES</u>	<u>TREASURY BILLS</u>	<u>TOTAL</u>
WHITTEMORE, BOSTON	DECREASE \$24,659,000	INCREASE \$36,516,000	INCREASE \$11,857,000
WILLIAMS, PHILADELPHIA	INCREASE 2,517,000	DECREASE 15,585,000	DECREASE 13,068,000
GIDNEY, CLEVELAND	DECREASE 16,991,000	INCREASE 11,499,000	DECREASE 5,492,000
LEACH, RICHMOND	INCREASE 36,427,000	INCREASE 21,123,000	INCREASE 57,550,000
McLAREN, ATLANTA	INCREASE 43,750,000	INCREASE 20,468,000	INCREASE 64,218,000
YOUNG, CHICAGO	INCREASE 11,239,000	INCREASE 144,020,000	INCREASE 155,259,000
DAVIS, ST. LOUIS	INCREASE 42,194,000	DECREASE 65,759,000	DECREASE 23,565,000
PEYTON, MINNEAPOLIS	INCREASE 33,060,000	INCREASE 9,624,000	INCREASE 42,684,000
LEEDY, KANSAS CITY	DECREASE 36,426,000	INCREASE 15,458,000	DECREASE 20,968,000
GILBERT, DALLAS	INCREASE 46,239,000	DECREASE 53,835,000	DECREASE 7,596,000
EARMART, SAN FRANCISCO	DECREASE 44,368,000	DECREASE 5,744,000	DECREASE 50,112,000

ROUSE

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, DECEMBER 1, 1947
(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, 1947	64,233	4,360	14,876	4,358	6,032	4,302	3,483	8,559	3,820	2,012	3,385	3,103	5,943
B. Estimated dividends, 1947	11,523	671	4,052	854	1,124	485	441	1,381	379	253	384	427	1,072
C. Estimated expenses and dividends	75,756	5,031	18,928	5,212	7,156	4,787	3,924	9,940	4,199	2,265	3,769	3,530	7,015
D. Current earnings*:													
1. Estimated earnings, 1947, other than on Government securities	2,868	162	718	193	368	147	96	380	223	111	257	50	163
2. On interest-bearing securities in System Account to December 1	73,063	4,925	18,164	5,086	6,818	4,576	3,790	9,489	3,915	2,117	3,526	3,404	6,953
3. Total*	75,931	5,087	19,182	5,279	7,186	4,723	3,886	9,869	4,138	2,228	3,783	3,454	7,116
E. Excess of "C" over "D-3"	-175	-56	-254	-67	-30	64	38	71	61	37	-14	76	-101
F. Allocation required (on basis of 1.020516% earnings rate) to produce earnings for December equal to "E"	-208,636	-66,764	-302,821	-79,878	-35,766	76,301	45,304	84,647	72,725	44,112	-16,691	90,608	-120,413
G. Average daily participations, per cent, in interest-bearing securities in System Account since November 30, 1942	100.0	6.9757	24.0900	7.4730	9.6741	6.3428	5.3327	12.9241	4.9961	2.8429	4.8872	4.4489	10.0125
H. Allocation of interest-bearing securities on basis of "G" (\$9,650,663,000 plus \$208,636,000)	9,859,299	687,755	2,375,105	736,785	953,799	625,356	525,767	1,274,226	492,580	280,290	481,844	438,630	987,162
I. Total allocations	9,650,663	620,991	2,072,284	656,907	918,033	701,657	571,071	1,358,873	565,305	324,402	465,153	529,238	866,749
J. Present allocations	9,650,663	645,650	2,165,266	654,390	935,024	665,230	527,321	1,347,634	523,111	291,342	501,579	482,999	911,117
K. Change in allocations	--	-24,659	-92,982	+2,517	-16,991	+36,427	+43,750	+11,239	+42,194	+33,060	-36,426	+46,239	-44,368

* Exclusive of earnings on Treasury bills.

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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
II. Allocation of Treasury Bills													
L. Distribution of estimated earnings on bills for year on basis of "G"	73,992	5,161	17,825	5,529	7,158	4,693	3,946	9,563	3,697	2,104	3,616	3,292	7,408
M. Earnings to December 1 on bills in System Account	51,706	4,102	7,149	4,554	6,194	4,082	3,487	6,018	2,984	1,787	3,077	2,507	5,765
N. Earnings to December 31 on bills in Option Accounts	13,434	186	8,180	353	154	112	42	3,085	240	84	132	52	814
O. Pro rata share of earnings from bills in System Account for Dec. ("L" minus "M" and "N")	8,852	873	2,496	622	810	499	417	460	473	233	407	733	829
P. Allocation of System Account bills in proportion to "O"	12,557,968	1,238,489	3,540,972	882,406	1,149,114	707,911	591,581	652,583	671,026	330,547	577,394	1,039,877	1,176,068
Q. Portion that Banks cannot take due to low reserve ratio*	1,001,638	347,155							75,117			579,366	
R. Distribution of "Q" to Banks with highest reserve ratios	1,001,638							1,001,638					
S. Final allocation of Treasury bills in System Account ("P" minus "Q" plus "R")	12,557,968	891,334	3,540,972	882,406	1,149,114	707,911	591,581	1,654,221	595,909	330,547	577,394	460,511	1,176,068
T. Present allocations	12,557,968	854,818	3,658,757	897,991	1,137,615	686,788	571,113	1,510,201	661,668	320,923	561,936	514,346	1,131,812
U. Change in allocations	--	+36,516	-117,785	-15,585	+11,499	+21,123	+20,468	+144,020	-65,759	+9,624	+15,458	-53,835	-5,744
III. Total Allocation of System Account Securities													
V. Participation in System Account ("T" plus "S")	22,208,631	1,512,325	5,613,256	1,539,313	2,067,147	1,409,568	1,162,652	3,013,094	1,161,214	654,949	1,042,547	989,749	2,042,817
W. Change in participation	--	+11,857	-210,767	-13,068	-5,492	+57,550	+64,218	+155,259	-23,565	+42,684	-20,968	-7,596	-50,112

* Based on note and deposit liability and reserve figures as of close of business November 29, 1947.

Earnings rate, December 1, on Treasury bills in System Account, .845858%

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CD IN FILES SECTION
JAN 23 1948
333. 343
KLP

December 1, 1947

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

There is enclosed a statement showing adjustments to be made in allocations of Government securities in the System Open Market Account as of December 1, 1947, prepared in accordance with the formula adopted by the System Open Market Committee on September 21, 1944, as amended June 20, 1945.

Very truly yours,

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

Enclosure

ERS
MA
ML/dlw
lmg

FOR FILE
J. A. Smith

FILE COPY

REPRODUCED IN FILES SECTION
 JAN 23 1948
 CONFIDENTIAL

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, DECEMBER 1, 1947
 (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													
1. Estimated current expenses, 1947	64,253	4,360	14,876	4,358	6,052	4,302	3,483	8,599	3,820	2,012	3,385	3,103	5,943
2. Estimated dividends, 1947	11,523	671	4,052	854	1,124	485	441	1,381	379	253	384	427	1,072
C. Estimated expenses and dividends	75,756	5,031	18,928	5,212	7,156	4,787	3,924	9,940	4,199	2,265	3,769	3,530	7,015
Current earnings*:													
1. Estimated earnings, 1947, other than on Government securities	2,868	162	718	193	368	147	96	380	223	111	257	50	163
2. On interest-bearing securities in System Account to December 1	73,063	4,925	18,464	5,006	6,818	4,576	3,790	9,489	3,913	2,117	3,526	3,404	6,953
3. Totals	75,931	5,087	19,182	5,279	7,186	4,723	3,886	9,869	4,138	2,228	3,783	3,454	7,116
E. Excess of "C" over "D-3"	-175	-56	-254	-67	-30	64	38	71	61	37	-14	76	-101
F. Allocation required (on basis of 1.020516% earnings rate) to produce earnings for December equal to "E"	-208,636	-66,764	-302,821	-79,878	-35,766	76,301	45,304	84,647	72,725	44,112	-16,691	90,608	-120,413
G. Average daily participations, per cent, in interest-bearing securities in System Account since November 30, 1942	100.0	6.9757	24.0900	7.4730	9.6741	6.3428	5.3327	12.9241	4.9961	2.8429	4.8872	4.4489	10.0125
Allocation of interest-bearing securities on basis of "G" (\$9,650,663,000 plus \$208,636,000)													
I. Total allocations	9,650,663	620,991	2,072,284	656,907	918,033	701,657	571,071	1,358,873	565,305	324,402	465,153	529,258	866,749
J. Present allocations	9,650,663	645,650	2,165,266	654,390	933,024	665,230	527,321	1,347,634	523,111	291,342	501,579	482,999	911,117
K. Change in allocations	--	-24,659	-92,982	+2,517	-16,991	+36,427	+43,750	+11,239	+42,194	+33,060	-36,426	+16,259	-44,368

* Exclusive of earnings on Treasury bills.

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REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, DECEMBER 1, 1947
(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 "U"	73,992	5,161	17,825	5,529	7,158	4,693	3,946	9,563	3,697	2,104	3,616	3,292	7,408
M. Earnings to December 1 on bills in System Account	51,706	4,102	7,149	4,554	6,194	4,082	3,487	6,018	2,984	1,787	3,077	2,507	5,765
N. Earnings to December 31 on bills in Option Accounts	13,434	186	8,180	353	154	112	42	3,085	240	84	132	52	814
O. Pro rata share of earnings from bills in System Account for Dec. ("L" minus "M" and "N")	8,852	873	2,496	622	810	199	417	460	473	253	407	733	829
P. Allocation of System Account bills in proportion to "O"	12,557,968	1,238,489	3,540,972	882,406	1,149,114	707,911	591,581	652,583	671,026	330,547	577,394	1,029,877	1,176,068
Q. Portion that Banks cannot take due to low reserve ratio*	1,001,638	347,155							75,117			579,366	
R. Distribution of "Q" to Banks with highest reserve ratios	1,001,638							1,001,638					
S. Final allocation of Treasury bills in System Account ("P" minus "Q" plus "R")	12,557,968	891,334	3,540,972	882,406	1,149,114	707,911	591,581	1,654,221	595,909	330,547	577,394	460,511	1,176,068
T. Present allocations	12,557,968	854,818	3,658,757	897,991	1,137,615	686,788	571,113	1,510,201	661,668	320,923	561,936	514,346	1,181,812
U. Change in allocations	--	+36,516	-117,785	-15,585	+11,499	+21,123	+20,468	+144,020	-65,799	+9,624	+15,458	-53,835	-5,744
<u>III. Total Allocation of System Account Securities</u>													
V. Participation in System Account ("T" plus "U")	22,208,631	1,512,325	5,613,256	1,539,313	2,067,147	1,409,568	1,162,652	3,013,094	1,161,214	654,949	1,042,547	989,719	2,042,817
W. Change in participation	--	+11,857	-210,767	-13,068	-5,492	+57,550	+64,218	+155,259	-23,565	+42,684	-20,968	-7,596	-50,112

* Based on note and deposit liability and reserve figures as of close of business November 29, 1947.

Earnings rate, December 1, on Treasury bills in System Account, .845858%

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FEDERAL RESERVE BANK OF ST. LOUIS
 DIVISION OF SYSTEMS
 AM 3 246

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REC'D IN FILES SECTION
 DEC 2 1947

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

December 1, 1947

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	-24,659	+36,516	+11,857
New York	-92,982	-117,785	-210,767
Philadelphia	+2,517	-15,585	-13,068
Cleveland	-16,991	+11,499	-5,492
Richmond	+36,427	+21,123	+57,550
Atlanta	+43,750	+20,468	+64,218
Chicago	+11,239	+144,020	+155,259
St. Louis	+42,194	-65,759	-23,565
Minneapolis	+33,060	+9,624	+42,684
Kansas City	-36,426	+15,458	-20,968
Dallas	+46,239	-53,835	-7,596
San Francisco	-44,368	-5,744	-50,112


 Smead

FILE COPY

FOR FILES
 M. J. G...

DECLASSIFIED
Authority E.O. 12958

View

REC'D IN FILES SECTION
NOV 19 1947
333.343

FEDERAL RESERVE BANK
OF NEW YORK

November 17, 1947.

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

Dear Ed:

I have your letter of November 13th with the two
enclosures. Both Si Miller and Behrens are away and we have
a somewhat complicated market situation. However, I shall
try to get at this just as soon as possible.

Sincerely yours,

Bob

Robert G. Rouse,
Vice President.



FOR FILES
M. B. Daniels

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REC'D IN FILES SECTION
NOV 14 1947
REC'D IN FILES SECTION
DEC 29 1947

November 13, 1947

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, N. Y.

Dear Bob:

Since the last Presidents' Conference Mr. Van Fossen and Mr. Daniels have been giving some thought to desirable changes in the formula for reallocation of the System Open Market Account and Mr. Van Fossen has prepared a memorandum on the subject, a copy of which is enclosed herewith. There is also enclosed a copy of a memorandum prepared by Mr. Daniels in which he comments on Mr. Van Fossen's memorandum.

10-17-47

11-7-47

While I do not go along fully with the program set forth in Mr. Van Fossen's memorandum, I have felt for quite some time now that the present formula is cumbersome and involves unnecessary work. My present thinking is that we could very well arrive at an equitable distribution of interest bearing securities among the Federal Reserve Banks around the first of each year and let the ratio of holdings as thus established remain unchanged for the following twelve months. These ratios might well be fixed in the same proportion as the expense and dividend requirements at each Bank bear to the total for the System. Such ratios, as you know, are approximately the same as the five-year holding ratios. If such a procedure were adopted, we could then use bills to adjust holdings of Banks for the purpose of equalizing reserve ratios. Should at some time in the future the volume of bills outstanding decline substantially, we could change so as to include certificates along with bills in the secondary allocation.

After you have had an opportunity to review this matter I shall appreciate it if you will call me on the telephone in order that we may work out a procedure for developing our report.

Sincerely,

324. 10-2-47

Handwritten initials and signature: JTB, EJA, ELS:jbs

Enclosures 2

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

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REC'D IN FILES SECTION
 NOV 14 1947

November 1947
 REC'D IN FILES SECTION
 DEC 29 1947

Mr. Smead

Mr. Daniels

Differences from the present reallocation procedure in the proposed plan:

Sec 10-17-47

1. Participations in interest-bearing securities will not be affected by a reallocation.

The ratios for participations in interest-bearing securities will be established on some appropriate basis, such as the average participations in interest-bearing securities over a preceding period.

2. No. 1 being so, the reallocation formula is greatly simplified in that purposes of the present procedure are all accomplished in the allocation of Treasury bills. These are (a) provision of sufficient earnings to cover expenses and dividends, and (b) allocation of earnings in excess of the amount necessary to cover expenses and dividends in proportion to average holdings of interest-bearing securities in the preceding five-year period, subject to necessary adjustments in order to maintain the stipulated minimum reserve ratio.

3. The balance of profit and loss account is taken into consideration in the estimates of earnings and expenses. (This is not an essential element in the plan. It could be introduced in the present procedure.)

4. Treasury bill holdings will be maintained between reallocation dates in the same proportions established in the preceding reallocation.

From a technical standpoint the proposed plan is advantageous because of its simplicity. It would reduce the changes necessary in holdings of Government securities arising from a reallocation, since only Treasury bills would be affected. This would be reflected in a substantial reduction in the number of entries required to accomplish a reallocation. Also, the proposed plan should tend to reduce the apparent size of changes due to the reallocation. This is so principally because the present procedure produces a pattern under which

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Mr. Smead

- 2 -

interest-bearing securities are, for the most part, allocated during the early part of the year in the ratio of expense and dividend requirements and during the latter part of the year in the ratio of average holdings during the preceding five years. The periodic reallocation of interest-bearing securities is eliminated under the proposed plan. An additional simplification in the procedure is possible since earnings may be estimated for the entire year on interest-bearing securities. As long as estimated earnings for the year plus earnings to date of the reallocation on Treasury bills are more than enough to cover expenses and dividends, the reallocation of Treasury bills can be accomplished in one step, subject to the adjustments necessary to maintain a minimum reserve ratio. At present, of course, earnings from interest-bearing securities alone more than cover expenses and dividend requirements.

A comment on No. 4 above may be in order. The long established procedure of allocating the various types of securities in the System Account as a unit has already been departed from somewhat through the shuffling of Treasury bill holdings to maintain the stipulated minimum reserve ratio. Moreover, existence of the Option Account Treasury bills has accentuated the differences in relative holdings of Treasury bills by the Reserve Banks as compared to holdings of other securities. Accordingly, it would appear to be an appropriate time to adopt the principle that different types of securities in the System Account may be allocated on different bases.


M/D/dlw

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REC'D IN RECORDS SECTION
 APR 18 1968

Mr. Smead

- 2 -

by 2006/8/20
 interest-bearing securities are, for the most part, allocated during the early part of the year in the ratio of expense and dividend requirements and during the latter part of the year in the ratio of average holdings during the preceding five years. The periodic reallocation of interest-bearing securities is eliminated under the proposed plan. An additional simplification in the procedure is possible since earnings may be estimated for the entire year on interest-bearing securities. As long as estimated earnings for the year plus earnings to date of the reallocation on Treasury bills are more than enough to cover expenses and dividends, the reallocation of Treasury bills can be accomplished in one step, subject to the adjustments necessary to maintain a minimum reserve ratio. At present, of course, earnings from interest-bearing securities alone more than cover expenses and dividend requirements.

A comment on No. 4 above may be in order. The long established procedure of allocating the various types of securities in the System Account as a unit has already been departed from somewhat through the shuffling of Treasury bill holdings to maintain the stipulated minimum reserve ratio. Moreover, existence of the Option Account Treasury bills has accentuated the differences in relative holdings of Treasury bills by the Reserve Banks as compared to holdings of other securities. Accordingly, it would appear to be an appropriate time to adopt the principle that different types of securities in the System Account may be allocated on different bases.

M. B. Daniels

Directive 1

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Authority E.O. 12958

REC'D IN RECORDS SECTION
APR 18 1968

FEDERAL RESERVE BANK
OF NEW YORK

November 5, 1947.

Dear Mr. Smead:

We received your letter of November 3, 1947 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on November 3, as of November 1, 1947, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on September 21, 1944, as amended June 20, 1945.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on November 3, 1947.

Very truly yours,

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)



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~~Similar letter sent to President of each F. R. Bank except New York~~

(HSC. 140A 100M-7-45)

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN RECORDS SECTION
APR 18 1968

November 5, 1947.

Dear Mr. Whittmore:

In accordance with our telegram of November 3, 1947,
I enclose herewith computation of the readjustments made on
November 3, as of November 1, 1947 in the participations of the
Federal Reserve Banks in the System Open Market portfolio.

Very truly yours,

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

Mr. Laurence F. Whittmore,
President, Federal Reserve Bank
of Boston,
Boston, Massachusetts.

Enclosure

Handwritten initials: RGR

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 Authority E.O. 12958

MISC. 140A 100M-7-45

REC'D IN RECORDS SECTION
APR 18 1968

SECURITIES DEPARTMENT
CODE WORD SAD
HVL : YD

FEDERAL RESERVE BANK OF NEW YORK

November 3, 1947

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

Readjustment of participations in Government securities held in System Account is being made today, as of November 1, 1947, under the plan for reallocation of Government securities adopted by the Federal Open Market Committee September 21, 1944, as amended June 20, 1945. The computations showing adjustments made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on November 5, 1947. These computations indicate an **INCREASE** of \$ _____ in your participation in interest-bearing obligations and an **DECREASE** of \$ _____ in your participation in Treasury Bills, making a net **INCREASE** of \$ _____ in your total participation in the System Account. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today, as of November 1, 1947.

	<u>INTEREST-BEARING SECURITIES</u>	<u>TREASURY BILLS</u>	<u>TOTAL</u>
WHITTEMORE, BOSTON	DECREASE \$ 27,625,000	INCREASE \$ 29,305,000	INCREASE \$ 1,680,000
WILLIAMS, PHILADELPHIA	INCREASE 5,159,000	DECREASE 5,651,000	DECREASE 492,000
GIENEY, CLEVELAND	INCREASE 11,480,000	INCREASE 12,910,000	INCREASE 24,390,000
LEACH, RICHMOND	INCREASE 30,954,000	INCREASE 16,639,000	INCREASE 47,593,000
McLAREN, ATLANTA	INCREASE 4,336,000	INCREASE 18,045,000	INCREASE 22,381,000
YOUNG, CHICAGO	INCREASE 74,967,000	DECREASE 6,668,000	INCREASE 68,299,000
DAVIS, ST. LOUIS	DECREASE 9,733,000	INCREASE 10,335,000	INCREASE 602,000
PEYTON, MINNEAPOLIS	INCREASE 5,996,000	INCREASE 7,229,000	INCREASE 13,225,000
LEEDY, KANSAS CITY	INCREASE 15,609,000	INCREASE 10,983,000	INCREASE 26,592,000
GILBERT, DALLAS	DECREASE 1,766,000	INCREASE 9,115,000	INCREASE 7,349,000
EARMART, SAN FRANCISCO	DECREASE 4,361,000	INCREASE 3,631,000	DECREASE 730,000

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REC'D IN FILES SECTION
 NOV 4 1947

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

November 3, 1947

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	-27,625	+29,305	+1,680
New York	-105,016	-105,873	-210,889
Philadelphia	+5,159	-5,651	-492
Cleveland	+11,480	+12,910	+24,390
Richmond	+30,954	+16,639	+47,593
Atlanta	+4,336	+18,045	+22,381
Chicago	+74,967	-6,668	+68,299
St. Louis	-9,733	+10,335	+602
Minneapolis	+5,996	+7,229	+13,225
Kansas City	+15,609	+10,983	+26,592
Dallas	-1,766	+9,115	+7,349
San Francisco	-4,361	+3,631	-730

Smead

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NOV 11 1947

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Authority E.O. 12958

IN FILES SECTION
NOV 4 1947
333,343

November 3, 1947

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

There is enclosed a statement showing adjustments to be made in allocations of Government securities in the System Open Market Account as of November 1, 1947, prepared in accordance with the formula adopted by the System Open Market Committee on September 21, 1944, as amended June 20, 1945.

Very truly yours,

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

ML/dlw

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 NOV 1 1947

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, NOVEMBER 1, 1947
 (In thousands of dollars)

	System	Roston	New York	Phila- delphia	Cleve- land	Rish- mond	Atlanta	Chicago	St. Louis	Winne- apolis	Kansas City	Dallas	San Francisco
<u>I. Allocation of Interest-Bearing Securities</u>													
A. Estimated current expenses, 1947	63,926	4,367	14,814	4,335	6,017	4,254	3,434	8,523	3,771	1,980	3,400	3,054	5,947
B. Estimated dividends, 1947	11,516	671	4,092	854	1,123	485	441	1,376	379	253	383	427	1,072
C. Estimated expenses and dividends	75,442	5,038	18,896	5,189	7,140	4,739	3,875	9,899	4,150	2,233	3,783	3,481	7,019
D. Current earnings*:													
1. Estimated earnings, 1947, other than on Government securities	2,846	170	681	195	365	148	98	385	224	114	255	92	199
2. In interest-bearing securities in System Account to November 1	65,544	4,423	16,785	4,579	6,090	4,055	3,379	8,434	3,505	1,890	3,133	3,025	6,246
3. Total*	68,390	4,593	17,466	4,774	6,455	4,203	3,477	8,819	3,729	2,004	3,388	3,077	6,405
E. Excess of "C" over "D-3"	7,052	445	1,430	425	685	536	398	1,080	421	229	395	404	614
F. Allocation required (on basis of 1.005106% earnings rate) to produce earnings November-December equal to "E"	4,268,172	269,333	865,497	251,176	414,591	324,110	240,887	653,662	254,807	138,601	239,071	244,518	371,619
G. Average daily participations, per cent, in interest-bearing securities in System Account since October 31, 1942	100.0	6.9915	24.1481	7.4912	9.6690	6.3320	5.3216	12.8931	4.9848	2.8377	4.8771	4.4307	10.0232
H. Allocation of remainder of interest-bearing securities (\$8,605,056,000 less \$4,268,172,000) on basis of "G"	4,336,884	303,213	1,047,275	324,885	419,333	274,611	230,792	599,159	216,185	123,068	211,514	192,154	434,695
I. Total allocations	8,605,056	572,546	1,912,772	576,061	833,924	599,021	471,679	1,212,821	470,992	261,669	450,585	436,672	806,314
J. Present allocations	8,605,056	600,171	2,017,788	570,902	822,444	568,067	467,343	1,137,854	480,725	255,673	434,976	438,438	810,675
K. Change in allocations	-	-27,625	-105,016	+5,199	+11,480	+30,954	+4,336	+74,967	-9,733	+5,996	+15,609	-1,766	-4,361

* Exclusive of earnings on Treasury bills.

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	System	Boston	New York	Phila- delphis	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"	74,213	5,189	17,921	5,560	7,176	4,699	3,949	9,568	3,699	2,106	3,619	3,288	7,439
M. Earnings to November 1 on bills in System Account	42,886	3,507	4,994	3,923	5,393	3,597	3,083	4,951	2,520	1,561	2,681	2,143	4,933
N. Earnings to December 31 on bills in Option Accounts	13,434	186	8,180	353	154	112	42	3,085	240	84	132	52	814
O. Pre rata share of earnings from bills in System Account Nov.-Dec. ("L" minus "M" and "N")	17,893	1,496	5,147	1,284	1,629	990	824	1,532	939	461	806	1,093	1,692
P. Allocation of System Account bills in proportion to "O"	13,562,934	1,133,971	3,901,438	973,275	1,234,786	750,422	624,594	1,161,299	711,764	349,439	610,950	828,496	1,282,540
Q. Portion that Banks cannot take due to low reserve ratio*	504,663	222,736										281,907	
R. Distribution of "Q" to Banks with highest reserve ratios	504,663							504,663					
S. Final allocation of Treasury bills in System Account ("P" minus "Q" plus "R")	13,562,934	911,215	3,901,438	973,275	1,234,786	750,422	624,594	1,665,982	711,764	349,439	610,950	546,589	1,282,540
T. Present allocations	13,562,934	881,910	4,007,311	978,926	1,221,876	733,783	606,549	1,672,590	701,429	342,210	599,967	537,474	1,278,909
U. Change in allocations	-	+29,305	-105,873	-5,651	+12,910	+16,639	+18,045	-6,668	+10,335	+7,229	+10,983	+9,115	+3,631
<u>III. Total Allocation of System Account Securities</u>													
V. Participation in System Account ("I" plus "S")	22,167,990	1,423,761	5,814,210	1,549,336	2,068,710	1,349,443	1,096,273	2,878,743	1,182,756	611,108	1,061,535	983,261	2,088,854
W. Change in participation	-	+1,680	-210,889	-492	+24,390	+47,593	+22,381	+68,299	+602	+13,225	+26,592	+7,349	-730

* Based on note and deposit liability and reserve figures as of close of business October 31, 1947.

Earnings rate, October 31, on Treasury bills in System Account, +79157%.

FOR FILE
J. R. BARR

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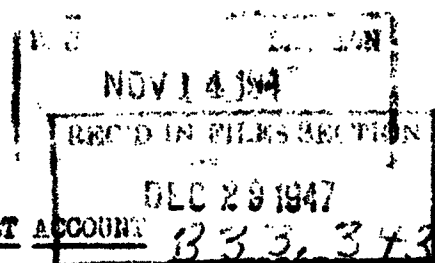
REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, NOVEMBER 1, 1947
 (In thousands of dollars)

	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, 1947	63,926	4,367	14,844	4,335	6,017	4,254	3,434	8,523	3,771	1,980	3,400	3,054	5,947
B. Estimated dividends, 1947	11,516	671	4,052	854	1,123	485	441	1,376	379	253	383	427	1,072
C. Estimated expenses and dividends	75,442	5,038	18,896	5,189	7,140	4,739	3,875	9,899	4,150	2,233	3,783	3,481	7,019
D. Current earnings*:													
1. Estimated earnings, 1947, other than on Government securities	2,846	170	681	195	365	148	98	385	224	114	255	52	159
2. In interest-bearing securities in System Account to November 1	65,544	4,423	16,785	4,579	6,090	4,055	3,379	8,434	3,505	1,890	3,133	3,025	6,246
3. Total*	68,390	4,593	17,466	4,774	6,455	4,203	3,477	8,819	3,729	2,004	3,388	3,077	6,405
E. Excess of "C" over "D-3"	7,052	445	1,430	415	685	536	398	1,080	421	229	395	404	614
F. Allocation required (on basis of 1.005106% earnings rate) to produce earnings November-December equal to "E"	4,268,172	269,333	865,497	251,176	414,591	324,410	240,887	653,662	254,807	138,601	239,071	244,518	371,619
G. Average daily participations, per cent, in interest-bearing securities in System Account since October 31, 1942	100.0	6.9915	24.1481	7.4912	9.6690	6.3320	5.3216	12.8931	4.9848	2.8377	4.8771	4.4307	10.0232
H. Allocation of remainder of interest-bearing securities (\$8,605,056,000 less \$4,268,172,000) on basis of "G"	4,336,884	303,213	1,047,275	324,885	419,333	274,611	230,792	559,159	216,185	123,068	211,514	192,154	434,695
I. Total allocations	8,605,056	572,546	1,912,772	576,061	833,924	599,021	471,679	1,212,821	470,992	261,669	450,585	436,672	806,314
J. Present allocations	8,605,056	600,171	2,017,788	570,902	822,444	568,067	467,343	1,137,854	480,725	255,673	434,976	438,438	810,675
K. Change in allocations	-	-27,625	-105,016	+5,159	+11,480	+30,954	+4,336	+74,967	-9,733	+5,996	+15,609	-1,766	-4,361

* Exclusive of earnings on Treasury bills.

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FORMULA FOR REALLOCATION OF SYSTEM OPEN MARKET ACCOUNT

Since the present formula for reallocation of the System Account was adopted three changes in the situation have occurred which have a very decided effect upon the suitability of the present formula; namely, (1) discontinuance of option account bills, (2) discontinuance of the pegged rate of three-eighths of one per cent on Treasury bills, and (3) payment of 90 per cent of net earnings after dividends as interest on Federal Reserve notes. Mr. Rouse sent down a proposed amendment to the formula which eliminates reference to option account bills and the proposed changes satisfactorily amend the formula in this respect. However, it is believed that consideration should be given to the desirability of a more far-reaching revision of the reallocation formula. Attached is a statement, prepared as of October 1, illustrating a proposed new formula which it is believed is more suitable to the present situation than the formula now in use. Following is a list of the significant changes in the formula and a statement of the advantages that it is believed result from these changes:

Allocation of Interest-bearing Securities

As indicated in the statement, it is proposed to substitute a fixed percentage participation as regards interest-bearing securities for the present five-year moving average. The proposed percentages conform very closely to the present percentages as will be noted from the following

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tabulation, which also shows that the changes in the present ratios during the year from October 1, 1946 to October 1, 1947, have been quite insignificant.

	Average daily participations, per cent, in interest-bearing securities for 5 years ended			Suggested fixed percentage	Average daily participations, per cent, in interest-bearing securities for 5 years ended			Suggested fixed percentage
	Oct. 1 1946	Oct. 1 1947			Oct. 1 1946	Oct. 1 1947		
Boston	7.0946	6.9958	7.0	Chicago	12.8823	12.8825	12.9	
New York	24.0172	24.1816	24.2	St. Louis	4.8555	4.9700	5.0	
Philadelphia	7.6202	7.5105	7.5	Minneapolis	2.8178	2.8332	2.8	
Cleveland	9.8399	9.6648	9.7	Kansas City	4.8529	4.8713	4.9	
Richmond	6.3653	6.3290	6.3	Dallas	4.3088	4.4132	4.4	
Atlanta	5.2740	5.3134	5.3	San Francisco	10.0715	10.0347	10.0	

Advantage of fixed ratios

1. Profits and losses, when they occur, will be allocated to the Federal Reserve Banks in proportion to holdings of securities over a long period of time. The present arrangement is designed to attain this objective approximately -- fixed ratios would do it precisely. As regards securities purchased hereafter, the effect as regards earnings and profit or loss would be the same as if each Bank had purchased for its own account a definite amount of the securities in question. As regards present holdings, the effect would be the same as if each Bank were to now purchase a definite participation at book value.

2. Fixed ratios would eliminate the present necessity of re-allocating the entire premium and discount accounts and recomputing the daily accruals of interest on all interest-bearing securities whenever any interest-bearing securities are purchased, sold or redeemed. Whenever any of these things occur under the present plan the percentage of the interest-bearing securities allocated to each Federal Reserve Bank is slightly changed and this involves a change in the percentage of its participation in every issue of interest-bearing securities in the account.

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3. They would make unnecessary the calculation of the present five-year moving average which involves a considerable volume of work.

4. They make possible the inclusion of estimated earnings on interest-bearing securities for the remainder of the year in earnings by banks used in allocating the account as a whole. This will be commented upon further in connection with earnings.

5. The periodical reallocation of the System Account would not affect holdings of interest-bearing securities in any way. Accordingly, the net increases and decreases in holdings of Treasury bills as arrived at in the second part of the statement would represent total changes in participations in the Account. The use of fixed ratios does not, of course, preclude the possibility of changes in the ratios from time to time, if deemed desirable. Such changes should be made on the last day of a month immediately preceding a reallocation. If so made, the change in holdings would, of course, be effective as of close of business on the last day of the month and the first earnings on the changed holdings would be as of the first day of the following month, on which day the System Account would be reallocated.

6. Distribution of profits and losses would be in proportion to current holdings -- some Banks in the past have criticized the present arrangement in this respect.

Proposed Change in Earnings Figures

Under the proposed plan three additional items would be inserted in earnings; namely, (1) estimated earnings on interest-bearing securities from the reallocation date to the end of the year, (2) earnings on Treasury bills to date, and (3) profit and loss account to date.

Advantages of above changes

1. Under the present formula, on January 1 expenses and dividends exceed "current earnings" as used in the reallocation statement. At some later reallocation, because of the inclusion of earnings on interest-bearing securities to date, current earnings as used in the statement will exceed estimated expenses and dividends. At that time it is necessary for us to change the form of the statement. For example, compare the reallocation statement for July 1, 1946, with the statement for October 1, 1946. Under the proposed formula, earnings as used in the statement will always exceed expenses and dividends, thus eliminating the necessity of changing the form of the statement.

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2. The inclusion of these items in earnings makes it possible to allocate the remainder of the System Account, i.e., holdings of Treasury bills, in such a manner as to produce any desired distribution of net earnings after dividends among the Federal Reserve Banks, subject to any limitation imposed by the maintenance of minimum reserve percentages. The allocation in the attached statement is, of course, affected by the fact that St. Louis has a net debit in profit and loss account as compared with sizable credits in the case of all other Reserve Banks.

Distribution of Earnings in Excess of Expenses and Dividends
(Items H to M in Attached Statement)

In Item H excess of estimated earnings over estimated expenses and dividends are allocated in whatever ratio is desired. Note that in the attached statement the distribution is made, first, in proportion approximately to Federal Reserve notes not covered by gold (which would tend to equalize the interest rates on Federal Reserve notes) and, then, as an alternative, in proportion to percentage holdings of interest-bearing securities conforming substantially with the present practice. Any other set of ratios desired could, of course, be substituted.

Advantages of above changes

1. Item H represents estimated earnings for the year after dividends, not only for the System as a whole but for each Bank in accordance with whatever ratio is applied. There is no similar item in the present statement. Accordingly, estimated payments to the Treasury as interest on Federal Reserve notes for the System as a whole and for each Federal Reserve Bank can be derived by taking 90 per cent of Item "H". As regards amounts for individual banks, this calculation is subject to the qualification that it may not be possible to distribute holdings of Treasury bills in strict accordance with the formula because of the minimum reserve requirement.

2. Whether a formula is satisfactory in actual use depends very largely upon the results it produces in terms of the distribution of net earnings after dividends. The proposed formula lends itself very

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readily to modification in this respect by merely changing the ratios used in Item "H". In addition to the two plans illustrated in the statement, it would, of course, be possible, for example, to devise ratios for "H" which would tend to equalize surplus.

Any increase or decrease in holdings of Treasury bills due to open market transactions should be allocated to the various Federal Reserve Banks in proportion to Item "H" in order to maintain the same relative position of the Banks in respect to net earnings after dividends as would have existed had the transactions in question not occurred. Changes in holdings of interest-bearing securities would be adjusted for, of course, in proportion to Item "A".

VF:mas
10/17/47

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Reallocation of Government Securities in System Open Market Account, October 1, 1947.
in Accordance with Proposed New Formula
(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
K. Portion that Banks cannot take due to low reserve ratio	3,840,205	840,613		771,025	702,898	658,115	54,327		729,971	83,256			
L. Distribution of "K" to Banks with highest reserve ratios	3,840,205		2,930,063										910,142
M. Final allocation of bills ("J" minus "K" plus "L")	13,563,291	899,564	2,686,560	1,057,998	1,425,570	1,097,967	980,565	1,966,132	733,247	473,403	684,444	386,097	1,171,744
N. Present allocations	13,563,291	936,733	2,130,450	1,134,891	1,445,202	1,125,976	998,848	1,835,005	692,326	473,939	761,664	579,885	1,448,372
O. Change in allocations	--	-37,169	+556,110	-97,893	-19,632	-28,009	-18,283	+131,127	+40,921	-536	-77,220	-193,788	-276,628

Alternative Allocation of Treasury Bills

H. Estimated earnings on Treasury bills after October 1 (\$24,731,000) plus "G" allocated in proportion to "A"	81,288	5,690	19,672	6,097	7,885	5,121	4,308	10,486	4,064	2,276	3,983	3,577	8,129
I. Excess of "H" over "G"	24,731	1,949	7,108	1,574	2,214	1,375	1,117	2,120	1,564	629	1,143	1,473	2,165
J. Allocation of bills in proportion to "I"	13,563,291	1,068,895	3,898,261	863,232	1,214,231	754,095	612,600	1,327,208	857,749	344,965	626,858	807,844	1,187,356
K. Portion that Banks cannot take due to low reserve ratio	501,170	169,331							124,502			207,337	
L. Distribution of "K" to Banks with highest reserve ratios	501,170							501,170					
M. Final allocation of bills ("J" minus "K" plus "L")	13,563,291	899,564	3,898,261	863,232	1,214,231	754,095	612,600	1,828,378	733,247	344,965	626,858	600,504	1,187,356
N. Present allocations	13,563,291	936,733	2,130,450	1,134,891	1,445,202	1,125,976	998,848	1,835,005	692,326	473,939	761,664	579,885	1,448,372
O. Change in allocations	--	-37,169	+1,767,811	-271,659	-230,971	-371,881	-386,248	-6,627	+40,921	-128,974	-134,806	+20,619	-261,026

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Reallocation of Government Securities in System Open Market Account, October 1, 1947.
in Accordance with Proposed New Formula
(In thousands of dollars)

REVD FILES SECTION
 DEC 29 1947

	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. Pro rata participation (per cent) established, 1947	100.0	7.0	24.2	7.5	9.7	6.3	5.3	12.9	5.0	2.8	4.9	4.4	10.0
B. Allocation	8,310,056	581,704	2,011,033	623,254	806,075	523,534	440,433	1,071,997	415,503	232,682	407,193	365,642	831,006
II. Allocation of Treasury Bills													
C. Estimated current expenses, 1947	63,637	4,400	14,923	4,321	5,943	4,192	3,413	8,377	3,763	1,971	3,360	3,047	5,927
D. Estimated dividends, 1947	11,509	671	4,019	853	1,123	484	441	1,376	379	253	383	426	1,071
E. Estimated expenses and dividends	75,146	5,071	18,972	5,174	7,066	4,676	3,854	9,753	4,142	2,224	3,743	3,473	6,998
F. 1947 earnings:													
1. Other than on Government securities (est.)	2,866	180	662	213	341	156	101	403	214	124	255	54	163
2. On interest-bearing securities to October 1	58,435	3,927	15,120	4,110	5,410	3,585	2,992	7,493	3,107	1,678	2,774	2,661	5,578
3. On interest-bearing securities after October 1 (est.)	20,816	1,457	5,038	1,561	2,019	1,311	1,103	2,685	1,041	583	1,020	916	2,082
4. On Treasury bills to October 1	47,221	3,088	10,092	3,619	4,726	3,216	2,717	6,915	2,297	1,415	2,411	1,837	4,888
5. Profit and loss account Aug. 31	2,365	160	624	194	241	154	132	323	-17	71	123	109	251
6. Total	131,703	8,812	31,536	9,697	12,737	8,422	7,045	17,819	6,642	3,871	6,583	5,577	12,962
G. Excess of "F-6" over "E"	56,557	3,741	12,564	4,523	5,671	3,746	3,191	8,066	2,500	1,647	2,840	2,104	5,964
H. Estimated earnings on Treasury bills after October 1 (\$24,731,000) plus "G" allocated in proportion to F. R. note circulation in excess of reserves after deduction of 35 per cent of deposits from reserves, for January-August	81,288	6,914	12,120	7,858	9,552	6,948	5,078	11,651	5,168	2,662	4,088	2,808	6,441
I. Excess of "H" over "G"	24,731	3,173	-444	3,335	3,881	3,202	1,887	3,585	2,668	1,015	1,248	704	477
J. Allocation of bills in proportion to "I"	13,563,291	1,740,177	-213,503	1,829,023	2,128,468	1,756,082	1,034,892	1,966,132	1,463,218	556,659	684,444	386,097	261,602

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Mr. Smead
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APR 27 1968
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FEDERAL RESERVE BANK
OF NEW YORK

October 2, 1947.

Dear Mr. Smead:

We received your letter of October 1, 1947 (and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on October 1, 1947 pursuant to the plan adopted at the meeting of the Federal Open Market Committee on September 21, 1944, as amended June 20, 1945.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on October 1, 1947.

Very truly yours,

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

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MISC. 140A 100M-7-45

FEDERAL RESERVE BANK OF NEW YORK

REC'D IN RECORDS SECTION
APR 24 1968

October 2, 1947.

Dear Mr. Whittimore:

In accordance with our telegram of October 1, 1947,
I enclose herewith computation of the readjustments made on
October 1, 1947 in the participations of the Federal Reserve
Banks in the System Open Market portfolio.

Very truly yours,

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

Mr. Laurence F. Whittimore,
President, Federal Reserve Bank of Boston,
Boston, Massachusetts.

Enclosure.

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MISC. 140-B 50M-2-45

REC'D IN RECORDS SECTION

APR 24 1968

SECURITIES DEPARTMENT
~~ADMINISTRATIVE SERVICES~~

REB:FD

OCTOBER 1, 1947

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

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, as amended June 20, 1945. The computations showing adjustments made in participations of ^{the} several Federal Reserve Banks will be mailed to all Reserve Banks on October 2, 1947. These computations indicate

INCREASE of \$ _____ in your participation in interest-bearing obligations and
or DECREASE of \$ _____
INCREASE of \$ _____ in your participation in Treasury Bills, making a net
or DECREASE of \$ _____
INCREASE of \$ _____ in your total participation in the System Account. Your
DECREASE of \$ _____
 bank will receive this afternoon the usual coded wire showing the detailed entries to be made today.

	<u>INTEREST-BEARING SECURITIES</u>	<u>TREASURY BILLS</u>	<u>TOTAL</u>
WHITTEMORE, BOSTON	INCREASE \$32,491,000	DECREASE \$34,996,000	DECREASE \$2,505,000
WILLIAMS, PHILADELPHIA	DECREASE 3,235,000	DECREASE 155,938,000	DECREASE 159,173,000
GIDNEY, CLEVELAND	DECREASE 28,608,000	DECREASE 223,294,000	DECREASE 251,902,000
LEACH, RICHMOND	INCREASE 42,509,000	DECREASE 392,173,000	DECREASE 349,664,000
McLARIN, ATLANTA	INCREASE 31,239,000	DECREASE 392,281,000	DECREASE 361,042,000
YOUNG, CHICAGO	INCREASE 71,956,000	DECREASE 166,643,000	DECREASE 94,687,000
DAVIS, ST. LOUIS	INCREASE 19,777,000	DECREASE 9,642,000	INCREASE 10,135,000
PEYTON, MINNEAPOLIS	INCREASE 11,748,000	DECREASE 131,717,000	DECREASE 119,969,000
LEEDY, KANSAS CITY	INCREASE 19,721,000	DECREASE 161,679,000	DECREASE 141,958,000
GILBERT, DALLAS	INCREASE 34,741,000	DECREASE 39,158,000	DECREASE 4,417,000
EARNHART, SAN FRANCISCO	INCREASE 1,842,000	DECREASE 169,427,000	DECREASE 167,585,000

ROUSE

REC'D IN RECORDS SECTION
APR 24 1968

	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, 1947	63,637	4,400	14,923	4,321	5,943	4,192	3,413	8,377	3,763	1,971	3,360	3,047	5,927
B. Estimated dividends, 1947	11,509	671	4,049	853	1,123	484	441	1,376	379	253	383	426	1,071
C. Estimated expenses and dividends	75,146	5,071	18,972	5,174	7,066	4,676	3,854	9,753	4,142	2,224	3,743	3,473	6,998
D. Current earnings*:													
1. Estimated earnings, 1947, other than on Government securities	2,866	180	662	213	341	156	101	403	214	124	255	54	163
2. On interest-bearing securities in System Account to October 1	58,435	3,927	15,120	4,110	5,410	3,585	2,992	7,493	3,107	1,678	2,774	2,661	5,578
3. Total*	61,301	4,107	15,782	4,323	5,751	3,741	3,093	7,896	3,321	1,802	3,029	2,715	5,741
E. Excess of "C" over "D-3"	13,845	964	3,190	851	1,315	935	761	1,857	821	422	714	758	1,257
F. Allocation required (on basis of 1.00474% earnings rate) to produce earnings October- December equal to "E"	5,527,010	384,835	1,273,468	339,725	524,956	373,258	303,796	741,326	327,748	168,465	285,033	302,598	501,802
G. Average daily participations, per cent, in interest-bearing securities in System Account since September 30, 1942	100.0	6.9958	24.1816	7.5105	9.6648	6.3290	5.3134	12.8825	4.9700	2.8332	4.8713	4.4132	10.0347
H. Allocation of remainder of interest-bearing securities (\$8,310,056,000 less \$5,527,010,000) on basis of "G"	2,783,046	194,696	672,985	209,021	268,976	176,139	147,874	358,526	138,318	78,849	135,571	122,821	279,270
I. Total allocations	8,310,056	579,531	1,946,453	548,746	793,932	549,397	451,670	1,099,852	466,066	247,314	420,604	425,419	781,072
J. Present allocations	8,310,056	547,040	2,180,634	551,981	822,540	506,888	420,431	1,027,896	446,289	235,566	400,883	390,678	779,230
K. Change in allocations	--	+32,491	-234,181	-3,235	-28,608	+42,509	+31,239	+71,956	+19,777	+11,748	+19,721	+34,741	+1,842

* Exclusive of earnings on Treasury bills.

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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
II. Allocation of Treasury Bills													
L. Distribution of estimated earnings on bills for year on basis of "G"	71,952	5,034	17,399	5,404	6,954	4,554	3,823	9,269	3,576	2,039	3,505	3,175	7,220
M. Earnings to October 1 on bills in System Account	33,787	2,902	1,912	3,266	4,572	3,104	2,675	3,830	2,057	1,331	2,279	1,785	4,074
N. Earnings to December 31 on bills in Option accounts (est.)	13,434	186	8,180	353	154	112	42	3,085	240	84	132	52	814
O. Pro rata share of earnings from bills in System Account Oct.-Dec. ("L" minus "M" and "N")	24,731	1,946	7,307	1,785	2,228	1,338	1,106	2,354	1,279	624	1,094	1,338	2,332
P. Allocation of System Account bills in proportion to "O"	13,563,291	1,067,250	4,007,398	978,953	1,221,908	733,803	606,567	1,291,011	701,446	342,222	599,985	733,803	1,278,945
Q. Portion that Banks cannot take due to low reserve ratio*	377,351	165,513							18,762			193,076	
R. Distribution of "Q" to Banks with highest reserve ratios	377,351							377,351					
S. Final allocation of Treasury bills in System Account ("P" minus "Q" plus "R")	13,563,291	901,737	4,007,398	978,953	1,221,908	733,803	606,567	1,668,362	682,684	342,222	599,985	540,727	1,278,945
T. Present allocations	13,563,291	936,733	2,130,450	1,134,891	1,445,202	1,125,976	998,848	1,835,005	692,326	473,939	761,664	579,885	1,448,372
U. Change in allocations	--	-34,996	+1,876,948	-155,938	-223,294	-392,173	-392,281	-166,643	-9,642	-131,717	-161,679	-39,158	-169,427
III. Total Allocation of System Account Securities													
V. Participation in System Account ("I" plus "S")	21,873,347	1,441,268	5,953,851	1,527,699	2,015,840	1,283,200	1,058,237	2,768,214	1,148,750	589,536	1,020,589	966,146	2,060,017
W. Change in participation	--	-2,505	+1,642,767	-159,173	-251,902	-349,664	-361,042	-94,687	+10,135	-119,969	-141,958	-4,417	-167,585

* Based on note and deposit liability and reserve figures as of close of business September 30, 1947.

Earnings rate, September 30, on Treasury bills in System Account, .721327%.

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REC'D IN FILES SECTION
OCT 2 1947 AP
333,342

19

October 1, 1947

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 15, New York.

Dear Mr. Rouse:

There is enclosed a statement showing adjustments to be made in allocations of Government securities in the System Open Market Account as of October 1, 1947, prepared in accordance with the formula adopted by the System Open Market Committee on September 21, 1944, as amended June 20, 1945.

Very truly yours,

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

Enclosure

ER

MT/ly

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, 1947	63,637	4,400	14,923	4,321	5,943	4,192	3,413	8,377	3,763	1,971	3,360	3,047	5,927
B. Estimated dividends, 1947	11,509	671	4,049	853	1,123	484	441	1,376	379	253	383	426	1,071
C. Estimated expenses and dividends	75,146	5,071	18,972	5,174	7,066	4,676	3,854	9,753	4,142	2,224	3,743	3,473	6,998
D. Current earnings*:													
1. Estimated earnings, 1947, other than on Government securities	2,866	180	662	213	341	156	101	403	214	124	255	54	163
2. On interest-bearing securities in System Account to October 1	58,435	3,927	15,120	4,110	5,410	3,585	2,992	7,493	3,107	1,678	2,774	2,661	5,578
3. Total*	61,301	4,107	15,782	4,323	5,751	3,741	3,093	7,896	3,321	1,802	3,029	2,715	5,741
E. Excess of "C" over "D-3"	13,845	964	3,190	851	1,315	935	761	1,857	821	422	714	758	1,257
F. Allocation required (on basis of 1.00471% earnings rate) to produce earnings October- December equal to "E"	5,527,010	384,835	1,273,468	339,725	524,956	373,258	303,796	741,326	327,748	168,465	285,033	302,598	501,802
G. Average daily participations, per cent, in interest-bearing securities in System Account since September 30, 1942	100.0	6.9958	24.1816	7.5105	9.6648	6.3290	5.3134	12.8825	4.9700	2.8332	4.8713	4.4132	10.0347
H. Allocation of remainder of interest-bearing securities (\$8,310,056,000 less \$5,527,010,000) on basis of "G"	2,783,046	194,696	672,985	209,021	268,976	176,139	147,874	358,526	138,318	78,849	135,571	122,821	279,270
I. Total allocations	8,310,056	579,531	1,946,453	548,746	793,932	549,397	451,670	1,099,852	466,066	247,314	420,604	425,419	781,072
J. Present allocations	8,310,056	547,040	2,180,634	551,981	822,540	506,888	420,431	1,027,896	446,289	235,566	400,883	390,678	779,230
K. Change in allocations	--	+32,491	-234,181	-3,235	-28,608	+42,509	+31,239	+71,956	+19,777	+11,748	+19,721	+34,741	+1,842

* Exclusive of earnings on Treasury bills.

	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"	71,952	5,034	17,399	5,404	6,954	4,554	3,823	9,269	3,576	2,039	3,505	3,175	7,220
M. Earnings to October 1 on bills in System Account	33,787	2,902	1,912	3,266	4,572	3,104	2,675	3,830	2,057	1,331	2,279	1,785	4,074
N. Earnings to December 31 on bills in Option accounts (est.)	13,434	186	8,180	353	154	112	42	3,085	240	84	132	52	814
O. Pro rata share of earnings from bills in System Account Oct.-Dec. ("L" minus "M" and "N")	24,731	1,946	7,307	1,785	2,228	1,338	1,106	2,354	1,279	624	1,094	1,338	2,332
P. Allocation of System Account bills in proportion to "O"	13,563,291	1,067,250	4,007,398	978,953	1,221,908	733,803	606,567	1,291,011	701,446	342,222	599,985	733,803	1,278,945
Q. Portion that Banks cannot take due to low reserve ratio*	377,351	165,513							18,762			193,076	
R. Distribution of "Q" to Banks with highest reserve ratios	377,351							377,351					
S. Final allocation of Treasury bills in System Account ("P" minus "Q" plus "R")	13,563,291	901,737	4,007,398	978,953	1,221,908	733,803	606,567	1,668,362	682,684	342,222	599,985	540,727	1,278,945
T. Present allocations	13,563,291	936,733	2,130,450	1,134,891	1,445,202	1,125,976	998,848	1,835,005	692,326	473,939	761,664	579,885	1,448,372
U. Change in allocations	--	-34,996	+1,876,948	-155,938	-223,294	-392,173	-392,281	-166,643	-9,642	-131,717	-161,679	-39,158	-169,427
<u>III. Total Allocation of System Account Securities</u>													
V. Participation in System Account ("I" plus "S")	21,873,347	1,481,268	5,953,851	1,527,699	2,015,840	1,283,200	1,058,237	2,768,214	1,148,750	589,536	1,020,589	966,446	2,060,017
W. Change in participation	--	-2,505	+1,642,767	-159,173	-251,902	-349,664	-361,042	-94,687	+10,135	-119,969	-141,958	-4,417	-167,585

* Based on note and deposit liability and reserve figures as of close of business September 30, 1947.

Earnings rate, September 30, on Treasury bills in System Account, .721327%.

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RECORD IN FILES SECTION
 OCT 2 1947

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

October 1, 1947

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	+32,491	-34,996	-2,505
New York	-24,181	+1,876,948	+1,642,767
Philadelphia	-3,235	-155,938	-159,173
Cleveland	-28,608	-223,294	-251,902
Richmond	+42,509	-392,173	-349,664
Atlanta	+31,239	-392,281	-361,042
Chicago	+71,956	-166,643	-94,687
St. Louis	+19,777	-9,642	+10,135
Minneapolis	+11,748	-131,717	-119,969
Kansas City	+19,721	-161,679	-141,958
Dallas	+34,741	-39,158	-4,417
San Francisco	+1,842	-169,427	-167,585

Smead

Handwritten initials and scribbles

FILE COPY

OCT 1 1947
 J. B. [unclear]

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

REC'D IN FILES SECTION
OCT 2 1947
335 313

1947 OCT 1 AM 10 58

WA33WASH RH 22 RICH 1-1054A
VANFOSSEN

ESTIMATED EARNINGS TO OCTOBER 2 ON TREASURY BILLS HELD
BY OUR BANK OUTSIDE SYSTEM ACCOUNT \$111,648.36
NOWLAN.

FOR FILES
M. B. Daniels

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REC'D IN FILES SECTION
OCT 2 1947

TELEGRAM
Board of Governors
of the
Federal Reserve System
Branch, St. Louis

1947 OCT 1 AM 9 05

WA08WASH F1 ATLA 1-839

VAN FOSSEN

REURTEL SEPTEMBER 29. ESTIMATED EARNINGS TO OCTOBER 2 ON TREASURY
BILLS OUTSIDE SYSTEM ACCOUNT \$41,743.82.

MCCRAVEY.

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TELEGRAM
Board of Governors
of the
Federal Reserve System
1200 G Street, N.W.
Washington, D.C. 20004

REC'D IN FILES SECTION
OCT 2 1947

1947 OCT 1 AM 10 17

WA22GC17WASH H9 STL 1-909

VANFOSSEN

RETEL 29 ESTIMATED EARNINGS FOR 1947 THROUGH OCTOBER 2 ON
TREASURY BILLS HELD BY US OUTSIDE SYSTEM ACCOUNT 239,573.53
WHICH INCLUDES 120.52 FOR OCTOBER 2 LAST DAY OF PROGRAM

BUB .

FOR FILES
M. B. Daniels

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Authority E.O. 12958

TELEGRAM
Board of Governors
of the
Federal Reserve System
Federal Wire Service
Revised Printing of 1964

REC'D IN FILES SECTION
OCT 2 1947

1947 OCT 1 AM 10 14

WA21GC14WASH M6 DLS OCT 1-909

VANFOSSEN

REFERRING TO YOUR WIRE OF SEPTEMBER 29, EARNINGS TO OCTOBER 2
ON TREASURY BILLS HELD BY THIS BANK OUTSIDE SYSTEM ACCOUNT
\$51,901.63

GILBERT.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
1200 W. Main Street
Washington, D. C.

1947 SEP 30 PM 4:27
REC'D IN FILES SECTION
OCT 2 1947

9/30/47

WABOWASH B379 BOS 30-338

VANFOSSENBOARD

RETEL SEPTEMBER 29 1947 ESTIMATED EARNINGS THROUGH OCTOBER 2
1947 ON TREASURY BILLS HELD BY THIS BANK UNDER REPURCHASE OPTION
\$185,600.94

PITMAN.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Federal Wire Service
Building, Washington, D. C.

REC'D IN FILES SECTION
OCT 2 1947

1947 SEP 30 PM 5 01

WB17WASH B428 NY 30-454P

VAN FOSSEN

BOARD

ESTIMATED EARNINGS TO OCTOBER 2 ON TREASURY BILLS HELD BY FEDERAL
RESERVE BANK OF NEWYORK OUTSIDE SYSTEM ACCOUNT \$8,180,000.

MILLER.

FOR FILES
M. B. Daniels

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M 223 20M 1 46

TELEGRAM

2

FEDERAL RESERVE BANK OF PHILADELPHIA SECTION

PRIVATE WIRE SYSTEM

OCT 2 1947
333.343

CONFIRMATION

OUTGOING VIA

September 30, 1947

Van Fossen
Washington

Estimated earnings to October 2 on Treasury Bills
held outside System Account are 352,625.15.

R. R. Williams

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Authority E.O. 12958

TELEGRAM
Board of Governors
of the
Federal Reserve System
Federal Wire Service
Building: Washington, D.C.

1947 SEP 30 PM 3 55

REC'D IN FILES SECTION
OCT 2 1947

9/30/47

WA84WASH C73 PHILA 30-353P

VAN FOSSEN

ESTIMATED EARNINGS TO OCTOBER 2 ON TREASURY BILLS HELD
OUTSIDE SYSTEM ACCOUNT ARE 352,625.15.

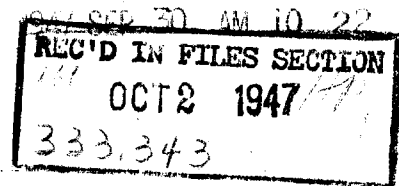
R R WILLIAMS.

FOR FILES
M. B. Daniels

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E L E G R A M
- Board of Governors
of the
Federal Reserve System
Leased Wire Service
Re. Fed. Res. System, C. C.



9/30/47

WA21G40BD WASHD 22 CLEV 30-10

VANFOSSEN

ESTIMATED EARNINGS FROM JANUARY 1, 1947 TO OCTOBER 2, 1947
ON TREASURY BILLS HELD BY OUR BANK OUTSIDE SYSTEM ACCOUNT
ARE \$153,557.22

SMITH.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
Leased Wire Service
Revised May 1962

REC'D IN FILES SECTION
OCT 2 1947

1947 SEP 30 PM 5 40

WA13G96WASH GX183 CGO 30-434

BOARD

VAN FOSSEN

REURTEL OF SEPT. 29 (ESTIMATED EARNINGS TO OCTOBER 2 ON TREASURY BILLS
HELD BY OUR BANK OUTSIDE SYSTEM ACCOUNT \$3,084,600

BLACK.

FOR FILES
M. B. Daniels

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Authority E.O. 12958

TELEGRAM
Board of Directors
Federal Reserve Bank
Federal Reserve Bank
Federal Reserve Bank
Federal Reserve Bank

REC'D IN FILES SECTION
OCT 2 1947

947 SEP 30 PM 3 50

WB08GC80BDWASH J153 KC 30-254

VANFOSSEN

ESTIMATED EARNINGS TO OCTOBER 2 TREASURY BILLS HELD BY US OUTSIDE

SYSTEM ACCOUNT \$131,824

KOPPANG.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
Federal Reserve System
—Special Wire Service—
1100

REC'D IN FILES SECTION
OCT 2 1947
407 SEP 30 PM 4

WB14GC22WASH 158 MPLS 30-2XXX 30-334

VAN FOSSEN

BOARD

ESTIMATED EARNINGS ON TREASURY BILLS HELD OUTSIDE SYSTEM ACCOUNT
TO OCTOBER 2 \$84,230.

PETERSON.

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.

SEP 30 AM 11 49
REC'D IN FILES SECTION
OCT 2 1947

WA40GC36WASH M31 18 ELP SEPT 30-900

VANFOSSEN

ESTIMATED EARNINGS TO OCTOBER 2 ON TREASURY BILLS HELD OUTSIDE
SYSTEM ACCOUNT \$3,031.92

ELPASO.

FOR FILES
M. B. Daniels

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Authority E.O. 12958

TELEGRAM
Board of Governors
of the
Federal Reserve System
Lashed Wire Section
Re. Wire Transfer

REC'D IN FILES SECTION
OCT 2 1947 *HP*

1947 OCT 1 AM 9 07

file 9/30/47

WA12G07WASH L143 SF 30-411

BOARD

REURTEL SEPTEMBER 30. ESTIMATED EARNINGS ON TREASURY BILLS

UP TO AND INCLUDING OCTOBER 2, 1947 \$814,370.85

SLADE.

FOR FILES
M. B. Daniels

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Authority E.O. 12958

FOUND IN FILES SECTION
SEP 29 1947

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

September 29, 1947

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

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

Please wire to reach Board not later than 11 AM EST
October 1 estimated earnings to October 2 on Treasury
bills held by your Bank outside System Account.

Van Fossen

MB/dlw

FILE COPY

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Authority E.O. 12958

JUL - 7 1947

B ✓

**FEDERAL RESERVE BANK
OF NEW YORK**

July 2, 1947.

Dear Mr. Smead:

We received your letter of July 1, 1947 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on July 1, 1947 pursuant to the plan adopted at the meeting of the Federal Open Market Committee on September 21, 1944, as amended June 20, 1945.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on July 1, 1947.

Very truly yours,

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)



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, 1947	64,145	4,351	15,689	4,342	6,038	4,116	3,354	8,304	3,727	1,987	3,308	2,977	5,952
B. Estimated dividends, 1947	11,467	670	4,028	851	1,120	483	438	1,372	378	252	382	424	1,069
C. Estimated expenses and dividends	75,612	5,021	19,717	5,193	7,158	4,599	3,792	9,676	4,105	2,239	3,690	3,401	7,021
Current earnings*:													
1. Estimated earnings, 1947, other than on Government securities	3,204	207	771	225	345	179	112	496	216	164	245	59	185
2. On interest-bearing securities in System Account to June 30	38,381	2,612	9,835	2,787	3,423	2,365	1,980	5,018	2,025	1,110	1,807	1,715	3,704
3. Total*	41,585	2,819	10,606	3,012	3,768	2,544	2,092	5,514	2,241	1,274	2,052	1,774	3,889
E. Excess of "C" over "D-3"	34,027	2,202	9,111	2,181	3,390	2,055	1,700	4,162	1,864	965	1,638	1,627	3,132
F. Allocation required (on basis of 1.023294% earnings rate) to produce earnings July-December equal to "E"	6,632,310	429,199	1,775,854	425,106	660,756	400,546	331,352	811,228	363,318	188,091	319,268	317,124	610,468
G. Average daily participations, per cent, in interest-bearing securities in System Account since June 30, 1942	100.0	7.0238	24.1267	7.5621	9.6427	6.3385	5.3092	12.9142	4.9456	2.8296	4.8646	4.3842	10.0588
H. Allocation of remainder of interest-bearing securities (\$7,376,456,000 less \$6,632,310,000) on basis of "G"	744,146	52,267	179,538	56,273	71,756	47,168	39,508	96,101	36,802	21,056	36,200	32,625	74,852
I. Total allocations	7,376,456	481,466	1,955,392	481,379	732,512	447,714	370,860	907,329	400,120	209,147	355,468	349,749	685,320
J. Present allocations	7,376,456	508,046	1,883,753	527,983	665,075	455,038	379,501	983,895	380,146	210,849	343,007	329,112	710,051
K. Change in allocations	--	-26,580	+71,639	-46,604	+67,437	-7,324	-8,641	-76,566	+19,974	-1,702	+12,461	+20,637	-24,731

* Exclusive of earnings on Treasury bills.

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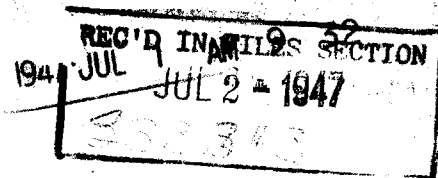
	System	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
<u>II. Allocation of Treasury Bills</u>													
L. Distribution of estimated earnings on bills for year on basis of "G"	56,106	3,941	13,536	4,243	5,410	3,556	2,979	7,246	2,775	1,587	2,729	2,460	5,614
M. Earnings to June 30 on bills in System Account	17,890	1,629	473	1,778	2,585	1,698	1,443	1,782	1,162	727	1,239	1,014	2,360
N. Earnings to December 31 on bills in Option accounts (est.)	20,706	322	12,931	504	272	187	75	4,267	361	120	195	96	1,376
O. Pro rata share of earnings from bills in System Account July-Dec. ("L" minus "M" and "N")	17,510	1,990	132	1,961	2,553	1,671	1,461	1,197	1,252	740	1,295	1,350	1,908
P. Allocation of System Account bills in proportion to "O"	9,185,547	1,043,931	69,246	1,028,718	1,339,275	876,588	766,424	627,933	656,785	388,195	679,342	708,195	1,000,915
Q. Portion that Banks cannot take due to low reserve ratio*	366,485	144,870							44,241			177,374	
R. Distribution of "Q" to Banks with highest reserve ratios	366,485							366,485					
S. Final allocation of Treasury bills in System Account ("P" minus "Q" plus "R")	9,185,547	899,061	69,246	1,028,718	1,339,275	876,588	766,424	994,418	612,544	388,195	679,342	530,821	1,000,915
T. Present allocations	9,185,547	865,551	156,298	969,452	1,403,323	919,575	775,814	671,242	607,331	384,968	666,692	563,209	1,202,092
U. Change in allocations	--	+33,510	-87,052	+59,266	-64,048	-42,987	-9,390	+323,176	+5,213	+3,227	+12,650	-32,388	-201,177
<u>III. Total Allocation of System Account Securities</u>													
V. Participation in System Account ("I" plus "S")	16,562,003	1,380,527	2,024,638	1,510,097	2,071,787	1,324,302	1,137,284	1,901,747	1,012,664	597,342	1,034,810	880,570	1,686,235
W. Change in participation	--	+6,930	-15,413	+12,662	+3,389	-50,311	-18,031	+246,610	+25,187	+1,525	+25,111	-11,751	-225,908

* Based on note and deposit liability and reserve figures as of close of business June 30, 1947.

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Authority E.O. 12958

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



WA09WASH B1 BOS 1-9A

SMEAD

RETEL JUNE 30, 1947 EARNINGS THROUGH JUNE 30, 1947 ON U S
TREASURY BILLS HELD BY THIS BANK UNDER REPURCHASE OPTION
\$137,589.27

PITMAN.

FOR FILES
M. E. Daniels

DECLASSIFIED

Authority E.O. 12958

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

1947
REC'D IN FILES SECTION
AM 10
JUL 2 - 1947
33-375

WA21WASH C7 PHILA JULY 1-958
VAN FOSSEN

**EARNINGS TO JUNE 30 ON TREASURY BILLS HELD OUTSIDE
SYSTEM ACCOUNT ARE \$274,789.05**

R R WILLIAMS .

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.

PLACED IN FILES SECTION
JUL 2 - 1947
333,343

1947 JUL 1 AM 10 39

WA32G53WASH D 18 CLEV 1-928
VAN FOSSEN

EARNINGS ON TREASURY BILLS ~~HELD~~ HELD BY OUR BANK OUTSIDE
SYSTEM ACCOUNT FOR PERIOD ~~FROM~~ FROM JANUARY 1 TO JUNE 30
ARE \$120,685.45

SMITH.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 12958

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

JUL IN FILES SECTION
JUL 24 AM 1947 24
38-31-372

WA43WASH RH 16

RICH 1-10

VAN FOSSEN

RETEL EARNINGS TO JUNE 30 ON TREASURY BILLS HELD BY US OUTSIDE
SYSTEM ACCOUNT \$79,151.05

NOWLAN.

FOR FILES
M. B. Daniels

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Authority E.O. 12958

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

1947 JUL 1
REC'D IN FILES SECTION
JUL 2 - 1947
355245

WA16WASH F1 ATLA 1-836

VAN FOSSEN

REURTEL JUNE 30. EARNINGS THROUGH JUNE 30 ON TREASURY BILLS OUTSIDE
SYSTEM ACCOUNT \$33,054.31

BOWMAN.

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. C.

1947 JUL 10 11 AM '47
355-513

WA25 WASH H3 STL 1-909

VANFOSSEN

EARNINGS TREASURY BILLS HELD BY US OUTSIDE SYSTEM ~~ACCOUNT~~
ACCOUNT FOR SIX MONTHS ENDING JUNE 30 APPROXIMATELY 187,252.24.

BUB.

FOR FILES
M. B. Daniels

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Authority E.O. 12958

1947 JUL 1 AM 10 59

WA35G59WASH 11 MPLS 1-834
VAN FOSSEN-BOARD

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

REC'D IN FILES SECTION
JUL 2 - 1947

EARNING ON TREASURY BILLS HELD OUTSIDE SYSTEM ACCOUNT TO JUNE

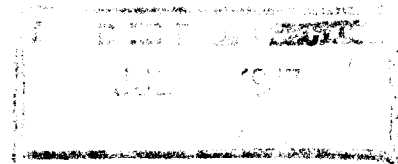
30 \$63640.75

PETERSON.

FOR FILES
M. B. Daniels

<p style="text-align: center;">DECLASSIFIED</p> <p style="text-align: center;">Authority <u>E.O. 12958</u></p>
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TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON



July 1, 1947

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	-26,580	+33,510	+6,930
New York	+71,639	-87,052	-15,413
Philadelphia	-46,604	+59,266	+12,662
Cleveland	+67,437	-64,048	+3,389
Richmond	-7,324	-42,987	-50,311
Atlanta	-8,641	-9,390	-18,031
Chicago	-76,566	+323,176	+246,610
St. Louis	+19,974	+5,213	+25,187
Minneapolis	-1,702	+3,227	+1,525
Kansas City	+12,461	+12,650	+25,111
Dallas	+20,637	-32,388	-11,751
San Francisco	-24,731	-201,177	-225,908

Smead

10/47

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Authority E.O. 12958

REC'D IN FILES SECTION
JUL 2 - 1947

July 1, 1947

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

There is enclosed a statement showing adjustments to be made in allocations of Government securities in the System Open Market Account as of July 1, 1947, prepared in accordance with the formula adopted by the System Open Market Committee on September 21, 1944, as amended June 20, 1945.

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, 1947	64,145	4,351	15,689	4,342	6,038	4,116	3,354	8,304	3,727	1,987	3,308	2,977	5,952
B. Estimated dividends, 1947	11,467	670	4,028	851	1,120	483	438	1,372	378	252	382	424	1,069
C. Estimated expenses and dividends	75,612	5,021	19,717	5,193	7,158	4,599	3,792	9,676	4,105	2,239	3,690	3,401	7,021
D. Current earnings*:													
1. Estimated earnings, 1947, other than on Government securities	3,204	207	771	225	345	179	112	496	216	164	245	59	185
2. On interest-bearing securities in System Account to June 30	38,381	2,612	9,835	2,787	3,123	2,365	1,980	5,018	2,025	1,110	1,807	1,715	3,704
3. Total*	41,585	2,819	10,606	3,012	3,768	2,544	2,092	5,514	2,241	1,274	2,052	1,774	3,889
E. Excess of "C" over "D-3"	34,027	2,202	9,111	2,181	3,390	2,055	1,700	4,162	1,864	965	1,638	1,627	3,132
F. Allocation required (on basis of 1.023294% earnings rate) to produce earnings July-December equal to "E"	6,632,310	429,199	1,775,854	425,106	660,756	400,546	331,352	811,228	363,318	188,091	319,268	317,124	610,468
G. Average daily participations, per cent, in interest-bearing securities in System Account since June 30, 1942	100.0	7.0238	24.1267	7.5621	9.6427	6.3385	5.3092	12.9142	4.9456	2.8296	4.8646	4.3842	10.0588
H. Allocation of remainder of interest-bearing securities (\$7,376,456,000 less \$6,632,310,000) on basis of "G"	744,146	52,267	179,538	56,273	71,756	47,168	39,508	96,101	36,802	21,056	36,200	32,625	74,852
I. Total allocations	7,376,456	481,466	1,955,392	481,379	732,512	447,714	370,860	907,329	400,120	209,147	355,468	349,749	685,320
J. Present allocations	7,376,456	508,046	1,883,753	527,983	665,075	455,038	379,501	983,895	380,116	210,819	343,007	329,112	710,051
K. Change in allocations	--	-26,580	+71,639	-46,604	+67,437	-7,324	-8,641	-76,566	+19,974	-1,702	+12,461	+20,637	-24,731

* Exclusive of earnings on Treasury bills.

FOR FILES
M. B. DanielsDECLASSIFIED
Authority E.O. 12958

	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"	56,106	3,941	13,536	4,243	5,410	3,556	2,979	7,246	2,775	1,587	2,729	2,460	5,644
M. Earnings to June 30 on bills in System Account	17,890	1,629	473	1,778	2,585	1,698	1,443	1,782	1,162	727	1,239	1,014	2,360
N. Earnings to December 31 on bills in Option accounts (est.)	20,706	322	12,931	504	272	187	75	4,267	361	120	195	96	1,376
O. Pro rata share of earnings from bills in System Account July-Dec. ("L" minus "M" and "N")	17,510	1,990	132	1,961	2,553	1,671	1,461	1,197	1,252	740	1,295	1,350	1,908
P. Allocation of System Account bills in proportion to "O"	9,185,547	1,043,931	69,246	1,028,718	1,339,275	876,588	766,424	627,933	656,785	388,195	679,342	708,195	1,000,915
Q. Portion that Banks cannot take due to low reserve ratio*	366,485	144,870							44,241			177,374	
R. Distribution of "Q" to Banks with highest reserve ratios	366,485							366,485					
S. Final allocation of Treasury bills in System Account ("P" minus "Q" plus "R")	9,185,547	899,061	69,246	1,028,718	1,339,275	876,588	766,424	994,418	612,544	388,195	679,342	530,821	1,000,915
. Present allocations	9,185,547	865,551	156,298	969,452	1,403,323	919,575	775,814	671,242	607,331	381,968	666,692	563,209	1,202,092
U. Change in allocations	--	+33,510	-87,052	+59,266	-64,048	-42,987	-9,390	+323,176	+5,213	+3,227	+12,650	-32,388	-201,177
<u>III. Total Allocation of System Account Securities</u>													
V. Participation in System Account ("I" plus "S")	16,562,003	1,380,527	2,024,638	1,510,097	2,071,787	1,344,302	1,377,284	1,901,747	1,012,664	597,342	1,074,810	880,570	1,686,235
W. Change in participation	--	+6,930	-15,413	+12,662	+3,389	-50,311	-18,031	+246,610	+25,187	+1,525	+25,111	-11,751	-225,908

* Based on note and deposit liability and reserve figures as of close of business June 30, 1947.

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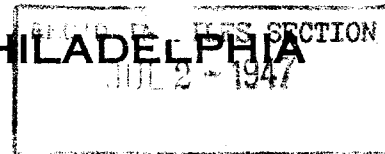
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TELEGRAM

2

FEDERAL RESERVE BANK OF PHILADELPHIA



PRIVATE WIRE SYSTEM

CONFIRMATION

OUTGOING VIA

July 1, 1947

Van Fossen
Washington

Earnings to June 30 on Treasury Bills held outside
System Account are \$274,789.05

R. R. Williams

DECLASSIFIED
Authority E.O. 12958

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

REC'D IN FILES SECTION
JUL 2 - 1947
335,348

1947 JUN 30 PM 6 06

WB37WASH B605 NY 30-545

VAN FOSSEN

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

EARNINGS TO JUNE 30 ON TREASURY BILLS HELD IN OPTION

ACCOUNT F R B NEW YORK \$6,352,000

MILLER.

FOR FILES
M. B. Daniels

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Authority E.O. 12958

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

REC'D IN FILES SECTION
JUL 2 - 1947
1947 JUN 30 PM 5 22

WA49GC34WASH GX242 CGO 30-406

BOARD

VAN FOSSEN

EARNINGS ON TREASURY BILLS HELD BY US CLOSE OF BUSINESS JUNE 30 OUTSIDE
SYSTEM ACCOUNT\$2,529,660.19

BLACK.

FOR FILES
M. J. Daniels

DECLASSIFIED
Authority E.O. 12958

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

1947 JUN 30 PM 6 05
IN FILES SECTION
JUL 2 - 1947
333,343

WA76GC72BDWASH J203 KC 30-321

VANFOSSEN

EARNINGS TO AND INCLUDING JUNE 30 TREASURY BILLS HELD BY US
OUTSIDE SYSTEM ACCOUNT \$103,311.57

KOPPANG.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 12958

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

REC'D IN FILES SECTION
JUL 2 - 1947
1947 JUN 30 PM 7 00

332-24

WA11G25WASH M190 DLS JUNE 30-47-457.0

VAN FOSSEN

REFERRING TO YOUR WIRE JUNE 30, EARNINGS TO JUNE 30 ON TREASURY BILLS
HELD BY THIS BANK OUTSIDE SYSTEM ACCOUNT \$41,540

GILBERT.

FOR FILES
M. B. Daniels

DECLASSIFIED

Authority E.O. 12958

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

REC'D IN FILES SECTION

JUL 3 - 1947
353-345

1947 JUN 30 PM 8 09

WA29G71WASH L104 SF 30-356

BOARD

Van Bassen

REURTEL JUNE 30. EARNINGS ON TREASURY BILLS TO

JUNE 30 \$661,777.99

EARHART.

FOR FILES
M. B. Daniels

DECLASSIFIED
Authority E.O. 12958

REC IN FILES SECTION
JUN 30 1947

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

June 30, 1947

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

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

Please wire to reach Board not later than 11 AM EDT July 1 earnings
to June 30 on Treasury bills held by your Bank outside System
Account.

Van Fossen

FILE COPY

4/17
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Authority E.O. 12958

*Van
8 ✓*

FEDERAL RESERVE BANK
OF NEW YORK 45

REC'D IN FILES SECTION
APR 3 1947
MP
932.243

April 2, 1947.

Dear Mr. Smead:

We received your letter of April 1, 1947 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on April 1, 1947 pursuant to the plan adopted at the meeting of the Federal Open Market Committee on September 21, 1944, as amended June 20, 1945.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on April 1, 1947.

Very truly yours,

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)



FOR FILES
M. B. Daniels

DECLASSIFIED
 Authority E.O. 12958

SECURITIES DEPARTMENT
 MEM:FD

REC'D IN FILES SECTION
 APR 3 1947

APRIL 1, 1947

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

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, as amended June 20, 1945. The computations showing adjustments made in participations of the several Federal Reserve Banks will be mailed to all Reserve Banks on April 2, 1947. These computations indicate an INCREASE
DECREASE of \$ _____ in your participation in interest-bearing obligations, and an INCREASE
DECREASE of \$ _____ in your participation in Treasury bills, making a net INCREASE
DECREASE of \$ _____ in your total participation in the System Account. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today.

	<u>INTEREST BEARING SECURITIES</u>	<u>TREASURY BILLS</u>	<u>TOTAL</u>
WHITTENORE, BOSTON	INCREASE \$13,278,000	INCREASE \$ 1,304,000	INCREASE \$14,582,000
WILLIAMS, PHILADELPHIA	DECREASE 14,325,000	INCREASE 23,354,000	INCREASE 9,029,000
GIDNEY, CLEVELAND	INCREASE 17,666,000	DECREASE 118,312,000	INCREASE 135,978,000
LEACH, RICHMOND	INCREASE 1,797,000	INCREASE 77,255,000	INCREASE 79,052,000
McLAREN, ATLANTA	DECREASE 1,832,000	INCREASE 53,188,000	INCREASE 51,356,000
YOUNG, CHICAGO	INCREASE 38,858,000	DECREASE 297,951,000	DECREASE 259,093,000
DAVIS, ST. LOUIS	DECREASE 19,732,000	INCREASE 19,009,000	DECREASE 723,000
PEYTON, WINNEAPOLIS	DECREASE 5,071,000	INCREASE 12,568,000	INCREASE 7,497,000
LEEDY, KANSAS CITY	DECREASE 8,017,000	INCREASE 45,748,000	INCREASE 37,731,000
GILBERT, DALLAS	DECREASE 1,561,000	INCREASE 4,872,000	INCREASE 3,311,000
EARHART, SAN FRANCISCO	DECREASE 2,536,000	INCREASE 2,531,000	DECREASE 5,000

BOUNDS

DECLASSIFIED
Authority E.O. 12958

MISC. 140A 100M-7-45

~~SIMILAR LETTER SENT TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT NEW YORK~~
FEDERAL RESERVE BANK OF NEW YORK

RECEIVED SECTION
APR 3 1947

April 2, 1947.

Dear Mr. Williams:

In accordance with our telegram of April 1, 1947,
I enclose herewith computation of the readjustments made
on April 1, 1947 in the participations of the Federal
Reserve Banks in the System Open Market portfolio.

Very truly yours,

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

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

Enclosure

FD

Handwritten signature/initials

FOR FILES
M. B. Daniels

DECLASSIFIED
 Authority E.O. 12958

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

REC'D IN FILES SECTION
 APR 1 1947

April 1, 1947

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	+13,278	+1,304	+14,582
New York	-18,545	-60,190	-78,735
Philadelphia	-14,325	+23,354	+9,029
Cleveland	+17,666	+118,312	+135,978
Richmond	+1,797	+77,255	+79,052
Atlanta	-1,832	+53,188	+51,356
Chicago	+38,858	-297,951	-259,093
St. Louis	-19,732	+19,009	-723
Minneapolis	-5,071	+12,568	+7,497
Kansas City	-8,017	+45,748	+37,731
Dallas	-1,541	+4,872	+3,331
San Francisco	-2,536	+2,531	-5

Smsad



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 Federal Reserve Bank of St. Louis

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FOR USE
 M. S. Board

	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													
Estimated current expenses, 1947	63,014	4,359	15,046	4,473	5,630	4,060	3,365	8,544	3,607	1,971	3,198	2,826	5,935
Estimated dividends, 1947	11,433	670	4,023	846	1,117	462	436	1,364	377	251	378	422	1,067
Estimated expenses and dividends	74,447	5,029	19,069	5,319	6,747	4,542	3,801	9,908	3,984	2,222	3,576	3,248	7,002
D. Current earnings*:													
1. Estimated earnings, 1947, other than on Government securities	3,750	200	899	244	449	194	167	553	281	187	279	86	211
2. On interest-bearing securities in System Account to March 31	20,383	1,374	5,224	1,503	1,807	1,256	1,056	2,613	1,095	595	972	911	1,977
3. Total*	24,133	1,574	6,123	1,747	2,256	1,450	1,223	3,166	1,376	782	1,251	997	2,188
E. Excess of "C" over "D-3"	50,314	3,455	12,946	3,572	4,491	3,092	2,578	6,742	2,608	1,440	2,325	2,251	4,814
F. Allocation required (on basis of 1.026898% earnings rate) to produce earnings April-December equal to "E"	6,503,120	446,561	1,673,280	461,664	580,465	399,643	333,208	671,408	337,086	186,121	300,508	290,943	622,213
G. Average daily participations, per cent, in interest-bearing securities in System Account since March 31, 1942	100.0	7.0401	24.0996	7.5918	9.6880	6.3430	5.3009	12.8804	4.9305	2.8315	4.8658	4.3708	10.0576
H. Allocation of remainder of interest-bearing securities (\$7,503,808,000 less \$6,503,120,000) on basis of "G"	1,000,688	70,449	241,162	75,970	96,947	63,474	53,045	128,893	49,339	28,335	48,691	43,738	100,645
I. Total allocations	7,503,808	517,010	1,914,442	537,654	677,412	463,117	386,253	1,000,301	386,425	214,456	349,199	334,681	722,858
J. Present allocations	7,503,808	503,732	1,932,987	551,979	659,746	461,320	388,065	961,443	406,157	219,527	357,216	336,222	725,394
K. Change in allocations	—	+13,278	-18,545	-14,325	+17,666	+1,797	-1,832	+38,858	-19,732	-5,071	-8,017	-1,541	-2,536

* Exclusive of earnings on Treasury bills.

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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
II. Allocation of Treasury Bills													
L. Distribution of estimated earnings on bills for year on basis of "G"	57,582	4,054	13,877	4,372	5,579	3,652	3,052	7,417	2,839	1,030	2,802	2,517	5,791
M. Earnings to March 31 on bills in System Account	8,883	796	253	855	1,230	807	692	1,082	550	353	593	481	1,191
N. Earnings to December 31 on bills in Option accounts (est.)	21,601	269	12,987	539	253	161	96	5,051	386	152	261	105	1,341
O. Pro rata share of earnings from bills in System Account Apr.-Dec. ("L" minus "M" and "N")	27,098	2,989	637	2,978	4,096	2,684	2,264	1,284	1,903	1,125	1,948	1,931	3,259
P. Allocation of System Account bills in proportion to "O"	9,459,714	1,043,438	222,372	1,039,598	1,429,884	936,965	790,346	448,235	664,323	392,729	680,033	674,098	1,137,693
Q. Portion that Banks cannot take due to low reserve ratio*	412,076	158,915		62,585					51,131			139,445	
R. Distribution of "Q" to Banks with highest reserve ratios	412,076							320,102					91,974
S. Final allocation of Treasury bills in System Account ("P" minus "Q" plus "R")	9,459,714	884,523	222,372	977,013	1,429,884	936,965	790,346	768,337	613,192	392,729	680,033	534,653	1,229,667
Present allocations	9,459,714	883,219	282,562	953,659	1,311,572	859,710	737,158	1,066,288	594,183	380,161	634,285	529,781	1,227,136
J. Change in allocations	--	+1,304	-60,190	+23,354	+118,312	+77,255	+53,188	-297,951	+19,009	+12,568	+45,748	+4,872	+2,531
III. Total Allocation of System Account Securities													
V. Participation in System Account ("I" plus "S")	16,963,522	1,401,533	2,136,814	1,514,067	2,107,290	1,400,082	1,176,599	1,708,038	999,017	607,185	1,029,232	869,334	1,952,525
W. Change in participation	--	+14,582	-78,735	+9,029	+135,978	+79,052	+51,356	-259,093	-723	+7,497	+37,731	+3,331	-5

* Based on note and deposit liability and reserve figures as of close of business March 31, 1947.

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April 1, 1947

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 adjustments to be made in allocations of Government securities in the System Open Market Account as of April 1, 1947, prepared in accordance with the formula adopted by the System Open Market Committee on September 21, 1944, as amended June 20, 1945.

Very truly yours,

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

Enclosure

MP
5/1/47
MP/dlv

FILE COPY

FOR FILES
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, 1947	63,014	4,359	15,046	4,473	5,630	4,060	3,365	8,544	3,607	1,971	3,198	2,826	5,935
B. Estimated dividends, 1947	11,433	670	4,023	846	1,117	482	436	1,364	377	251	378	422	1,067
C. Estimated expenses and dividends	74,447	5,029	19,069	5,319	6,747	4,542	3,801	9,908	3,984	2,222	3,576	3,248	7,002
D. Current earnings*: 1. Estimated earnings, 1947, other than on Government securities	3,750	200	899	244	449	194	167	553	281	187	279	86	211
2. On interest-bearing securities in System Account to March 31	20,383	1,374	5,224	1,503	1,807	1,256	1,056	2,613	1,095	595	972	911	1,977
3. Total*	24,133	1,574	6,123	1,747	2,256	1,450	1,223	3,166	1,376	782	1,251	997	2,188
E. Excess of "C" over "D-3"	50,314	3,455	12,946	3,572	4,491	3,092	2,578	6,742	2,608	1,440	2,325	2,251	4,814
F. Allocation required (on basis of 1.026898% earnings rate) to produce earnings April-December equal to "E"	6,503,120	446,561	1,673,280	461,684	580,465	399,643	333,208	871,408	337,086	186,121	300,508	290,943	622,213
G. Average daily participations, per cent, in interest-bearing securities in System Account since March 31, 1942	100.0	7.0401	24.0996	7.5918	9.6880	6.3430	5.3009	12.8804	4.9305	2.8315	4.8658	4.3708	10.0576
H. Allocation of remainder of interest-bearing securities (\$7,503,808,000 less \$6,503,120,000) on basis of "G"	1,000,688	70,449	241,162	75,970	96,947	63,474	53,045	128,893	49,339	28,335	48,691	43,738	100,645
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* Exclusive of earnings on Treasury bills.

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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>													
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O. Pro rata share of earnings from bills in System Account Apr.-Dec. ("L" minus "M" and "N")	27,098	2,989	637	2,978	4,096	2,684	2,264	1,284	1,903	1,125	1,948	1,931	3,259
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R. Distribution of "Q" to Banks with highest reserve ratios	412,076							320,102					91,974
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<u>III. Total Allocation of System Account Securities</u>													
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W. Change in participation	--	+14,582	-78,735	+9,029	+135,978	+79,052	+51,356	-259,093	-723	+7,497	+37,731	+3,331	-5

* Based on note and deposit liability and reserve figures as of close of business March 31, 1947.

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E L E G R A M
Board of Governors
of the
Federal Reserve System
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APR 3 1947

4/1/47

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VAN FOSSEN

EARNINGS ON TREASURY ~~XXX~~ BILLS HELD BY OUR BANK OUTSIDE SYSTEM
ACCOUNT FOR PERIOD FROM JANUARY 1 TO MARCH 31, 1947, INCLUSIVE,
\$53,126.21

SMITH.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors,
of the
Federal Reserve System
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1947 APR 1 AM 10 15
4/1/47

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VAN FOSSEN

EARNINGS TO MARCH 31 ON TREASURY BILLS HELD BY OUR BANK OUTSIDE
SYSTEM ACCOUNT \$20,901.73

NOWLAN.

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M. B. Daniels

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4/2/47

WA10WASH F1 ATLANTA 1 832A

VANFOSSEN

REURTEL MARCH 31, EARNINGS THROUGH MARCH 31 ON TREASURY BILLS
OUTSIDE SYSTEM ACCOUNT \$17,534.61.

MCCRAVEY.

FOR FILES
M. B. Daniels

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4/1/47

WA27G62WASH H12 STL 1-831

VANFOSSEN

EARNINGS TREASURY BILLS HELD BY US OUTSIDE SYSTEM ACCOUNT FOR THREE
MONTHS ENDING MARCH 31 APPROXIMATELY \$90,700.00

BUB .

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M. B. Daniels

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TELEGRAM
Board of Governors
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3/31/47

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BOARD

REURTEL MARCH 31. / EARNINGS ON TREASURY BILLS TO MARCH 31

\$326,536.36

SLADE.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
of the
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APR 3 1947
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1947 MAR 31 PM 5 31

WA32WASH B532 BOS 31-518

SMEAD BOARD

RETEL MARCH 31, 1947 / ESTIMATED EARNINGS THROUGH MARCH 31,
1947 ON U S TREASURY BILLS HELD BY THIS BANK UNDER REPURCHASE
OPTION \$55,485.33

PITMAN.

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M. B. Daniels

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TELEGRAM
Board of Governors
of the
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1947 MAR 31 PM 4 59

WA19WASH B513 NY 31-453

VAN FOSSEN

BOARD

RE YOUR WIRE MARCH 31 EARNINGS TO MARCH 31 ON TREASURY BILLS
HELD BY F R B NEW YORK OPTION ACCOUNT \$3,047,000

MILLER.

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M. B. Daniels

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343

1947 MAR 31 PM 4 05

WA02WASH C114 PHILA MAR 31-401

VAN FOSSEN

EARNINGS TO MARCH 31 / ON TREASURY BILLS HELD OUTSIDE SYSTEM

ACCOUNT ARE \$134,674.66

R R WILLIAMS.

FOR FILES
M. B. Daniels

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TELEGRAM

2

FEDERAL RESERVE BANK OF PHILADELPHIA

PRIVATE WIRE SYSTEM

CONFIRMATION

OUTGOING VIA

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APR 3 1947

Van Fossen
Washington

March 31, 1947

Earnings to March 31 on Treasury Bills held outside
System Account are \$134,674.66

R. R. Williams

FOR FILES
M. E. Daniels

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Board of Governors
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2/21/47

1947 MAR 31 PM 5 32

WA33G45BD WASH GX252 CGO 31-422

VAN FOSSEN

EARNINGS CLOSE BUSINESS MARCH 31 ON TREASURY BILLS HELD BY US OUTSIDE
SYSTEM ACCOUNT \$1,620,404.26

BLACK .

FOR FILES
M. B. Daniels

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Board of Governors
of the
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1947 MAR 31 PM 4: 57
2/1/47

WB16GC67WASH 190 MPLS 31-345

VAN FOSSEN

EARNINGS TO MARCH 31, ON TREASURY BILLS HELD OUTSIDE SYSTEM ACCOUNT

\$31,277.75

PETERSON.

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M. B. Daniels

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Board of Governors
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1947 MAR 31 PM 4 19

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3/31/47

WB09G66BDWASH J169 KC 31 311

VANFOSSEN BOARD

ESTIMATED EARNINGS TO MARCH 31 TREASURY BILLS \$52,500

KOPPANG

EARNINGS.

FOR FILES
M. B. Daniels

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TELEGRAM
Board of Governors
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1947 MAR 31 PM 4 30

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APR 3 1947

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WA11GC52WASH M95 DLS MAR 31-47-324P

VANFOSSEN

THIS REFERS TO YOUR WIRE OF MARCH 31, EARNINGS TO MARCH 31 ON
TREASURY BILLS HELD BY THIS BANK
OUTSIDE SYSTEM ACCOUNT \$22,578.00

GILBERT.

FOR FILES
M. B. Daniels

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

REC'D IN FILES
M APR 1 1947
333,343

March 31, 1947

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

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

Please wire to reach Board not later than 11 AM EST April 1
earnings to March 31 on Treasury bills held by your Bank
outside System Account.

Van Fossen

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February 27, 1947.

Mr. Thurston

Mr. Smead

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With the exception of a few small amounts the Government securities purchased in the market (other than repurchase agreements) during the three months ending January 1947, were made from the following dealers and banks:

Purchases of U. S. Government securities
 by System Open Market Account

<u>From Dealers</u>	1947	1946	
	January	December	November
Elair & Co., Inc.	\$31,100,000	\$28,300,000	\$35,600,000
Briggs Schaedle & Co., Inc.	6,199,000	5,660,000	5,676,000
C. F. Childs & Co., Inc.	62,200,000	56,600,000	87,200,000
C. J. Devine & Co., Inc.	622,000,000	580,350,000	587,000,000
Discount Corp.	622,000,000	698,000,000	670,500,000
First Boston Corp.	622,000,000	586,000,000	607,000,000
D. W. Rich & Co., Inc.	46,650,000	42,450,000	42,900,000
Solomon Bros. & Gutler	622,000,000	576,000,000	572,000,000
Total	2,634,149,000	2,573,360,000	2,607,876,000
 <u>From Banks</u>			
Bankers Trust Co.	87,750,000	92,250,000	127,500,000
Guaranty Trust Co.	155,500,000	220,500,000	226,000,000
Continental Illinois Nat'l Bk. & Tr. Co. Chicago, Ill.	388,575,000	353,610,000	357,360,000
First Nat'l Bk. of Chicago	82,100,000	89,450,000	84,000,000
Total	713,925,000	755,810,000	794,860,000

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FOR FILES
 L. B. Smith

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MAR 15 1948

February 20, 1947.

Mr. Smead

Tax on Federal Reserve notes and
allocation of System Open Market Account

Mr. Van Fossen

If the Board were to establish a tax on Federal Reserve notes outstanding not covered by gold certificates pledged with the Federal Reserve Agent, there are a number of measures that an individual Federal Reserve Bank could resort to in order to reduce the amount of tax payable, as follows:

1. Keep the stock of silver certificates, legal tender notes and coin at a minimum. This would tend to reduce deposit liabilities and, accordingly, increase the amount of gold certificates available against Federal Reserve notes.

2. Pay out any \$5 silver certificates and legals on hand in preference to paying out Federal Reserve \$5's. This would effect a corresponding decrease in the amount of Federal Reserve notes subject to tax.

3. Pledge with the Federal Reserve Agent the maximum possible amount of gold certificates or at least the maximum amount permitted by the Board. This would mean that reserves available against deposits and the redemption fund would be kept at as low a level as possible with consequent frequent transfers to and from the Federal Reserve Agent.

4. Keep the stock of unassorted currency at the lowest possible level.

5. Dispose of Federal Reserve notes of other Federal Reserve Banks as promptly as possible thereby increasing reserves and the amount of gold certificates available against Federal Reserve notes.

6. Keep the stock of issued own Federal Reserve notes at the lowest possible level, perhaps even returning to the Federal Reserve Agent all, or the major part, of such notes at close of business each day.

7. Do not accept, or, insofar as possible, transfer to other Federal Reserve Banks, any earning assets the rate of earning on which is not in excess of the rate of tax on Federal Reserve notes. For example, if the tax were fixed at $1/2$ of 1 per cent, making allowance for the effect of the redemption fund, the cost to the Federal Reserve Banks would be .525 per cent to hold any earning asset that could be transferred to another Federal Reserve Bank. In the case of Treasury bills the offsetting earning would be only .375 per cent and so there would be a net gain to a Federal Reserve Bank of .15 per cent on all Treasury bills shifted to another Federal Reserve Bank.

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To: Mr. Smead

-2-

To what extent the Federal Reserve Banks would actually resort to any or all of the above measures if, of course, uncertain, and it should be borne in mind that while individual Federal Reserve Banks could gain by so doing, the Banks as a whole could not profit by prompt disposal of other Feds or transferring unprofitable earning assets to another Federal Reserve Bank.

The advantage of keeping the stock of own Federal Reserve notes at a minimum would be eliminated if the Board, in fixing the tax, were to establish a rate of 0 per cent on notes held at issuing Bank and an actual tax only on notes technically in circulation. There does not seem to be any reason why the Board could not adopt this policy and, aside from the advantage of not interfering with normal operating practices, since the Federal Reserve Banks could continue to carry without penalty whatever amount of their own notes seemed to be advisable, this arrangement would also facilitate the calculation of tax payable, computations of the amount of tax that would have been payable for prior periods under the same plan, and estimates of future taxes and, furthermore, would enable the Board to establish a somewhat higher rate for a given amount of tax to be paid.

No possible allocation of System Open Market Account securities could enable any Federal Reserve Bank to carry with the Federal Reserve Agent gold certificates equal in amount to its Federal Reserve notes in circulation. Accordingly, under any reallocation plan every Federal Reserve Bank would find it necessary to pay a tax on Federal Reserve notes. If the reallocation is in two steps, as at present, whereby interest-bearing securities are first allocated and then Treasury bills, from an earning standpoint it would make little difference to any Federal Reserve Bank by what method the Treasury bills were allocated providing the tax was approximately the same as the earning rate on bills. If the two rates were the same, there would be a slight disadvantage in holding Treasury bills because of the effect of the redemption fund requirement.

It is assumed that any scheme for allocation of System Open Market Account securities will have as its objective the distribution of retained earnings among the Federal Reserve Banks in agreed-upon proportions in so far as possible. The objective of the present plan, of course, is to distribute such earnings in proportion to average holdings of interest-bearing Government securities during the preceding five calendar years. For a number of reasons, among them the necessity of preventing the reserve ratio of any Bank from becoming unduly low, if not even below legal requirements, this objective at present is achieved in a very limited degree.

Attached hereto is a statement illustrating a revised plan of reallocation which it is believed would fit the changed circumstances and indicating approximately what would happen on the April 1, 1947 reallocation if the System Account and the allocation thereof as of January 1 had remained unchanged throughout the first quarter and if a tax of $\frac{3}{8}$

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To: Mr. Smead

-3-

of 1 per cent effective January 1 had been established on Federal Reserve notes in circulation not covered by gold certificates pledged with the Federal Reserve Agent. Attention is called to the following features of this plan that are especially important and noteworthy:

1. The amount of interest paid or accrued on Federal Reserve notes to date of reallocation is included along with expenses and dividends.
2. Earnings on Treasury bills to the date of reallocation are included in current earnings.

(The joint effect of these two provisions is to increase the amount of earnings (Item F) required to be covered in the first allocation (Item G) by any excess of interest paid on Federal Reserve notes over earnings on Treasury bills and to reduce such amount by any excess of earnings on Treasury bills over interest paid or accrued.)

In the second step in the allocation, the remaining interest-bearing securities are allocated in proportion to average daily participation in interest-bearing securities during the preceding five years if the present plan in this respect is retained and the earnings on these securities for the remainder of the year would be the estimated earnings retained by each Federal Reserve Bank at the end of the year providing the tax on Federal Reserve notes was identical with the return on Treasury bills, disregarding the minor influence of the redemption fund. If the tax were less than $\frac{3}{8}$ of 1 per cent there would, of course, be some profit from carrying Treasury bills and the profit realized during any period would enter into the reallocation on the next reallocation date. Conversely, if the tax on Federal Reserve notes were more than $\frac{3}{8}$ of 1 per cent there would be a current loss on Treasury bills held and this loss would likewise enter into the next reallocation computation.

In order to have the final results conform as closely as possible to the objective in regard to distribution of retained earnings, it would be necessary and desirable on the December 1 reallocation to substitute for Item C, interest paid or accrued through November 30, estimated interest payable for the calendar year, and, likewise, to substitute for the Item E,3, earnings on Treasury bills to November 30, estimated earnings on Treasury bills for the calendar year. It would be hardly worthwhile introducing such a refinement in the computation, however, or even to retain the present adjustment for profits and losses under Section 13b, unless the plan were modified so as to take account of such expenditures as lump sum payments to the retirement system and of such profits as profits on sales of Government securities. In fact, to do the best possible job, it would be desirable to include all profit and loss figures in the calculation.

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To: Mr. Smead

-4-

Although the attached statement is designed to distribute retained earnings in proportion to participations in interest-bearing securities during the preceding five years, the reallocation could very easily be modified so as to make the distribution of retained earnings on any other basis. For example, suppose that on consideration of the existing surplus accounts it would be desirable to give certain Federal Reserve Banks an increased share in any retained earnings and to reduce amounts to be retained by other Federal Reserve Banks, Item H could be changed to accomplish this very readily. It might be decided, for example, that so far as the next \$50,000,000 or \$100,000,000 of retained earnings are concerned it would be desirable to have the Federal Reserve Bank of Boston receive 10 per cent and the Federal Reserve Bank of Chicago 5 per cent with other appropriate percentages for the other ten Banks. If the desirability of this were agreed upon, Item H could be so changed and allowed to stand as changed until the Federal Reserve Banks had accumulated the \$50,000,000 or \$100,000,000 of additional surplus, whether this occurred within a few years or extended into the indefinite future.

It will be noted that in the heading it is stated that Treasury bill holdings are to be reallocated each Wednesday and on the last day of each month so as to equalize reserve ratios. This is recommended because of the desirability of avoiding any great disparity in reserve ratios so long as we have a System Account subject to allocation from which most of our earnings are derived and also for the reason, as stated above, that there would be no advantage to any Federal Reserve Bank under the proposed plan of allocating interest-bearing securities to receive the maximum possible allocation of Treasury bills. Because of the unimportance of Treasury bill holdings from an earning standpoint, if there is to be a tax on Federal Reserve notes, the allocation of Treasury bills need not be precise. In fact, I think it would be desirable to allocate them in multiples of either \$5,000,000 or \$10,000,000. If this plan were adopted the quarterly reallocation would deal only with interest-bearing securities and would end with Item L in the attached statement. The estimate of net earnings for the year after dividends and interest on Federal Reserve notes that follows would presumably not appear on the periodical reallocation statement. I have inserted it on the attached statement partly as a matter of information to show that as of January 1 a tax of $\frac{3}{8}$ of 1 per cent on Federal Reserve notes might have been expected to result in a tax for the year of approximately \$45,000,000 and the retention of earnings in the amount of approximately \$26,000,000. If the tax rate were increased to $\frac{1}{2}$ of 1 per cent, the amount of interest paid would be increased by one-third or by about \$15,000,000 and the amount of earnings retained would be reduced to about \$11,000,000. It is obvious that the Federal Reserve Banks could not have paid a tax equal to the average rate of earnings on the System Account (.6712 as of January 1) without drawing on their surplus accounts.

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To: Mr. Smead

-5-

I believe this computation also clearly indicates that if the reallocation plan is changed as herein suggested it would be possible from the reallocation statement to determine fairly accurately what the results for the year in terms of tax payable and retained earnings were likely to be and so to keep the Board currently informed whether a change in the tax rate was essential at any time during the year in order to avoid either a tax of such magnitude as to reduce the existing surplus or retained earnings in excess of the amount that the Board thought to be appropriate under the circumstances.

When Item E $\frac{1}{4}$ exceeds Item D, as it will late in the year unless the tax on notes is so high as to result in a very small amount of retained earnings, it will be necessary to vary the formula to produce the desired results in respect to the distribution of retained earnings. This can be done by inserting a line showing estimated earnings on interest-bearing securities for the rest of the year plus the excess for the System of E $\frac{1}{4}$ over D and first distribute this amount in the desired proportions and therefrom derive the ratios for the allocation of interest-bearing securities. A somewhat similar situation now exists late in the year in the allocation of Treasury bills.

Attachment



VF:MM

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FILES SECTION
15 1948

FORM OF REALLOCATION OF INTEREST-BEARING GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, APRIL 1, 1947
(Treasury Bill holdings reallocated each Wednesday and on the last day of each month so as to equalize reserve ratios of all Federal Reserve Banks)
(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, 1947	59,979	4,003	14,579	4,337	5,167	3,871	3,219	7,887	3,586	1,361	3,110	2,698	5,661
B. Estimated dividends, 1947	11,156	666	3,900	836	1,098	470	424	1,341	366	242	370	411	1,032
C. Int. paid (or accrued) on F.R. notes outstanding	1,359	890	2,104	1,014	1,260	960	672	1,657	667	348	535	337	915
D. Total exp., dividends & int. on F.R. notes	82,494	5,559	20,583	6,187	7,525	5,301	4,315	10,885	4,619	2,451	4,015	3,446	7,608
E. Current earnings:													
1. Estimated earnings, 1947													
other than on Govt. securities	3,573	161	943	223	399	203	158	576	255	119	272	72	192
2. On interest-bearing securities in System acct. to March 31	21,530	1,455	5,500	1,591	1,919	1,329	1,117	2,760	1,151	627	1,028	961	2,092
3. On Treasury bills to March 31	13,447	789	3,258	928	1,290	851	709	2,061	606	368	627	479	1,481
4. Total	38,550	2,405	9,701	2,742	3,608	2,383	1,984	5,397	2,012	1,114	1,927	1,512	3,765
F. Excess of "D" over "E4"	43,944	3,154	10,882	3,445	3,917	2,918	2,331	5,488	2,607	1,337	2,088	1,934	3,843
G. Allocation required (on basis of 1.022809% earnings rate) to produce earnings April-December equal to "F"	5,859,200	420,533	1,450,933	459,333	522,267	389,067	310,800	731,733	347,600	178,267	278,400	257,867	512,400
H. Average daily participations, per cent in interest-bearing securities in System Account since March 31, 1942	100.0	7.0654	24.0631	7.6114	9.7453	6.3482	5.2399	12.8716	4.8979	2.8292	4.3668	4.3557	10.0555
I. Allocation of remainder of interest-bearing securities (\$8,604,702,000 less \$5,859,200,000) on basis of	2,745,502	193,981	660,653	208,971	267,557	174,290	145,234	353,390	134,472	77,676	133,618	119,536	276,074
J. Total allocations	8,604,702	614,514	2,111,586	668,304	789,824	563,357	456,034	1,085,123	482,072	255,943	412,018	377,453	788,474
K. Present allocations	8,604,702	581,511	2,197,894	635,774	767,030	531,207	446,320	1,103,149	460,082	250,669	410,795	384,177	336,094
L. Change in allocations	---	+33,003	-86,308	+32,530	+22,794	+32,150	+9,714	-18,026	+21,990	+5,274	+1,223	-6,724	-47,620

Estimated net earnings for year 1947 after dividends and interest on F. R. notes:

A. From Item I	20,647,000	1,459,000	4,967,000	1,575,000	2,012,000	1,310,000	1,092,000	2,657,000	1,011,000	584,000	1,005,000	899,000	2,076,000
B. On bills reqd. as collateral less int. paid	-114,326												
C. On bills not reqd. as collateral	15,195,680												
Total	25,842,680	1,815,898	6,182,512	1,959,479	2,504,270	1,630,670	1,359,212	3,307,190	1,258,410	726,913	1,250,839	1,119,022	2,583,939

Note: Since all earnings on Treasury bills and interest paid or accrued, on F. R. notes will be included in items E3 and C, respectively, at each reallocation of the Interest-Bearing Securities in the System Open Market Account.

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REF'D IN FILES SECTION
 JAN 2 1947

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

January 2, 1947

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	-55,200	+42,035	-13,165
New York	+28,324	-82,124	-53,800
Philadelphia	+17,104	-5,813	+11,291
Cleveland	+41,251	-33,879	+7,372
Richmond	+16,625	+136,644	+153,269
Atlanta	+8,565	+77,418	+85,983
Chicago	+10,599	-95,476	-84,877
St. Louis	-13,808	+35,102	+21,294
Minneapolis	-11,218	+30,456	+19,238
Kansas City	-16,682	+31,339	+14,657
Dallas	-46,117	+39,025	-7,092
San Francisco	+20,557	-174,727	-154,170

Smead

FOR FILES
 L. R. Smith

FILE COPY

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Authority E.O. 12958

Mr. Smead
RECORDED IN RECORDS SECTION
Mr. [unclear]
APR 24 1968
Miss Smith
33-1343

FEDERAL RESERVE BANK
OF NEW YORK

January 3, 1947.

Dear Mr. Smead:

We received your letter of January 2, 1947 and have today sent to the Reserve Banks a copy of the computation showing the adjustments made in participations in System Open Market Account on January 2, 1947 as of January 1, 1947, pursuant to the plan adopted at the meeting of the Federal Open Market Committee on September 21, 1944, as amended June 20, 1945.

Enclosed herewith is a copy of the letter of transmittal, together with three copies of the computation, also copy of telegram which was sent to each of the Federal Reserve Banks on January 2, 1947.

Very truly yours,



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

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MISC. 140A 100M-7-45

**SECURITIES DEPARTMENT
RHB:FD**

FEDERAL RESERVE BANK OF NEW YORK

**REC'D IN RECORDS SECTION
APR 24 1968**

January 2, 1947

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

Readjustment of participations in Government securities held in System Account is being made today as of January 1 under the plan for reallocation of Government securities adopted by the Federal Open Market Committee September 21, 1944, as amended June 20, 1945. The computations showing adjustments 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 in interest-bearing obligations, an **INCREASE** of \$ _____ in your participation in Treasury bills, making a net **INCREASE** of \$ _____ in your total participation in the System Account. Your bank will receive this afternoon the usual coded wire showing the detailed entries to be made today.

	INTEREST-BEARING SECURITIES	TREASURY BILLS	TOTAL
WHITTEMORE, BOSTON	DECREASE 855,200,000	INCREASE 742,035,000	DECREASE 113,165,000
WILLIAMS, PHILADELPHIA	INCREASE 17,104,000	DECREASE 5,813,000	INCREASE 11,291,000
GIDNEY, CLEVELAND	INCREASE 41,251,000	DECREASE 33,879,000	INCREASE 7,372,000
LEACH, RICHMOND	INCREASE 16,625,000	INCREASE 136,644,000	INCREASE 153,269,000
McLAREN, ATLANTA	INCREASE 8,565,000	INCREASE 77,418,000	INCREASE 85,983,000
YOUNG, CHICAGO	INCREASE 10,599,000	DECREASE 95,476,000	DECREASE 84,877,000
DAVIS, ST. LOUIS	DECREASE 13,808,000	INCREASE 35,102,000	INCREASE 21,294,000
PEYTON, MINNEAPOLIS	DECREASE 11,218,000	INCREASE 30,456,000	INCREASE 19,238,000
LUNDY, KANSAS CITY	DECREASE 16,682,000	INCREASE 31,339,000	INCREASE 14,657,000
GILBERT, DALLAS	DECREASE 46,117,000	INCREASE 39,025,000	DECREASE 7,092,000
BARRETT, SAN FRANCISCO	INCREASE 20,557,000	DECREASE 174,727,000	DECREASE 154,170,000

ROUSE

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MISC. 140A 100M-7-45

REC'D IN RECORDS SECTION
APR 24 1968

FEDERAL RESERVE BANK OF NEW YORK

January 3, 1947,

Dear Mr. Whittemore:

In accordance with our telegram of January 2, 1947, I enclose herewith computation of the readjustments made on January 2, 1947 as of January 1, 1947 in the participations of the Federal Reserve Banks in the System Open Market portfolio.

Very truly yours,

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

Mr. L. F. Whittemore, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Enclosure

FD

Handwritten initials: RGH

Faint vertical stamps: RECORDED, INDEXED

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1947
(In thousands of dollars)

CONFIDENTIAL

IN RECORDS SEC
APR 27 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													
Estimate current expenses, 1947	59,979	4,003	14,579	4,337	5,167	3,871	3,219	7,887	3,586	1,861	3,110	2,698	5,661
Estimate dividends, 1947	11,156	666	3,900	836	1,098	470	424	1,341	366	242	370	411	1,032
Estimate expenses and dividends	71,135	4,669	18,479	5,173	6,265	4,341	3,643	9,228	3,952	2,103	3,480	3,109	6,693
b. Estimated current earnings, 1947, other than on Government securities	3,573	161	943	223	399	203	158	576	255	119	272	72	192
c. Excess of "C" over "D"	67,562	4,508	17,536	4,950	5,866	4,138	3,485	8,652	3,697	1,984	3,208	3,037	6,501
F. Allocation required (on basis of 1.004025% earnings rate) to produce earnings equal to "E"	6,729,115	448,993	1,746,570	493,016	584,248	412,141	347,103	861,731	368,218	197,605	319,514	302,482	647,494
G. Average daily participations, per cent, in interest-bearing securities in System Account since December 31, 1941	100.0	7.0654	24.0631	7.6114	9.7453	6.3482	5.2899	12.8716	4.8979	2.8292	4.8668	4.3557	10.0555
Allocation of remainder of interest-bearing securities (\$8,604,702,000 less \$6,729,115,000) on basis of "G"	1,875,587	132,518	451,324	142,758	182,782	119,066	99,217	241,418	91,864	53,064	91,281	81,695	188,600
I. Total allocations	8,604,702	581,511	2,197,894	635,774	767,030	531,207	446,320	1,103,149	460,082	250,669	410,795	384,177	836,094
J. Present allocations	8,604,702	636,711	2,169,570	618,670	725,779	514,582	437,755	1,092,550	473,890	261,887	427,477	430,294	815,537
K. Change in allocations	--	-55,200	+28,324	+17,104	+41,251	+16,625	+8,565	+10,599	-13,808	-11,218	-16,682	-46,117	+20,557

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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. Allocation of Treasury bills on basis of "G"	14,744,983	1,041,792	3,548,100	1,122,300	1,436,943	936,041	779,995	1,897,915	722,194	417,105	717,609	642,247	1,482,682
M. Holdings of Treasury bills in option accounts	4,905,617	36,269	3,222,632	139,743	88,371	52,231	22,754	831,211	101,565	26,264	64,847	16,600	303,130
N. Allocation of System Account bills ("L" minus "M")	9,839,366	1,005,523	325,468	982,557	1,348,572	883,810	757,241	1,066,704	620,629	390,901	652,762	625,647	1,179,552
O. Portion that Banks cannot take due to low reserve ratio*	515,959	174,608		101,653	18,275				55,833	12,456	37,871	115,263	
P. Distribution of "O" to Banks with highest reserve ratios	515,959							369,461					146,498
Q. Final allocation of Treasury bills in System Account ("N" minus "O" plus "P")	9,839,366	830,915	325,468	880,904	1,330,297	883,810	757,241	1,436,165	564,796	378,445	614,891	510,384	1,326,050
R. Present allocations	9,839,366	788,880	407,592	886,717	1,364,176	747,166	679,823	1,531,641	529,694	347,989	583,552	471,359	1,500,777
S. Change in allocations	--	+42,035	-82,124	-5,813	-33,879	+136,644	+77,418	-95,476	+35,102	+30,456	+31,339	+39,025	-174,727
<u>III. Total allocation of System Account Securities</u>													
T. Participation in System Account ("I" plus "Q")	18,444,068	1,412,426	2,523,362	1,516,678	2,097,327	1,415,017	1,203,561	2,539,314	1,024,878	629,114	1,025,686	894,561	2,162,144
U. Change in participation	--	-13,105	-53,800	+11,291	+7,372	+153,269	+85,983	-84,877	+21,294	+19,238	+14,657	-7,092	-154,170

* Based on note and deposit liability and reserve figures on December 31, 1946.

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JAN 3 1947
323,043.

January 2, 1947

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 adjustments to be made in allocations of Government securities in the System Open Market Account as of January 1, 1947, prepared in accordance with the formula adopted by the System Open Market Committee on September 21, 1944, as amended June 20, 1945.

See 3000 Journal
Very truly yours,

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

Enclosure

ER

WJ

FILE COPY

FOR FILES
A. E. Smith

REALLOCATION OF GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, JANUARY 1, 1947
(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, 1947	59,979	4,003	14,579	4,337	5,167	3,871	3,219	7,887	3,586	1,861	3,110	2,698	5,661
B. Estimated dividends, 1947	11,156	666	3,900	836	1,098	470	424	1,341	366	242	370	411	1,032
C. Estimated expenses and dividends	71,135	4,669	18,479	5,173	6,265	4,341	3,643	9,228	3,952	2,103	3,480	3,109	6,693
D. Estimated current earnings, 1947, other than on Government securities	3,573	161	943	223	399	203	158	576	255	119	272	72	192
E. Excess of "C" over "D"	67,562	4,508	17,536	4,950	5,866	4,138	3,485	8,652	3,697	1,984	3,208	3,037	6,501
F. Allocation required (on basis of 1.004025% earnings rate) to produce earnings equal to "E"	6,729,115	448,993	1,746,570	493,016	584,248	412,141	347,103	861,731	368,218	197,605	319,514	302,482	647,494
G. Average daily participations, per cent, in interest-bearing securities in System Account since December 31, 1941	100.0	7.0654	24.0631	7.6114	9.7453	6.3482	5.2899	12.8716	4.8979	2.8292	4.8668	4.3557	10.0555
Allocation of remainder of interest-bearing securities (\$8,604,702,000 less \$6,729,115,000) on basis of "G"	1,875,587	132,518	451,324	142,758	182,782	119,066	99,217	241,418	91,864	53,064	91,281	81,695	188,600
I. Total allocations	8,604,702	581,511	2,197,894	635,774	767,030	531,207	446,320	1,103,149	460,082	250,669	410,795	384,177	836,094
J. Present allocations	8,604,702	636,711	2,169,570	618,670	725,779	514,582	437,755	1,092,550	473,890	261,887	427,477	430,294	815,537
K. Change in allocations	--	-55,200	+28,324	+17,104	+41,251	+16,625	+8,565	+10,599	-13,808	-11,218	-16,682	-46,117	+20,557

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 JAN 8 1947

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	System	Boston	New York	Phila- delphia	Cleve- land	Rish- mond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
<u>II. Allocation of Treasury Bills</u>													
L. Allocation of Treasury bills on basis of "G"	14,744,983	1,041,792	3,548,100	1,122,300	1,436,943	936,041	779,995	1,897,915	722,194	417,165	717,609	642,247	1,482,682
M. Holdings of Treasury bills in option accounts	4,905,617	36,269	3,222,632	139,743	88,371	52,231	22,754	831,211	101,565	26,264	64,847	16,600	303,130
N. Allocation of System Account bills ("L" minus "M")	9,839,366	1,005,523	325,468	982,557	1,348,572	883,810	757,241	1,066,704	620,629	390,901	652,762	625,647	1,179,552
O. Portion that Banks cannot take due to low reserve ratio*	515,959	174,608		101,653	18,275				55,833	12,456	37,871	115,263	
P. Distribution of "O" to Banks with highest reserve ratios	515,959							369,461					146,498
Q. Final allocation of Treasury bills in System Account ("N" minus "O" plus "P")	9,839,366	830,915	325,468	880,904	1,330,297	883,810	757,241	1,436,165	564,796	378,445	614,891	510,384	1,326,050
R. Present allocations	9,839,366	788,880	407,592	886,717	1,364,176	747,166	679,823	1,531,641	529,694	347,989	583,552	471,359	1,500,777
S. Change in allocations	--	+42,035	-82,124	-5,813	-33,879	+136,644	+77,418	-95,476	+35,102	+30,456	+31,339	+39,025	-174,727
<u>III. Total allocation of System Account Securities</u>													
T. Participation in System Account ("I" plus "Q")	18,444,068	1,412,426	2,523,362	1,516,678	2,097,327	1,415,017	1,203,561	2,539,314	1,024,878	629,114	1,025,686	894,561	2,162,144
U. Change in participation	--	-13,165	-53,800	+11,291	+7,372	+153,269	+85,983	-84,877	+21,294	+19,238	+14,657	-7,092	-154,170

* Based on note and deposit liability and reserve figures on December 31, 1946.

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