

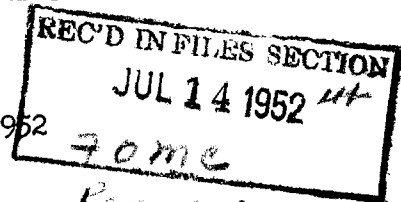
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FEDERAL RESERVE BANK OF MINNEAPOLIS
MINNEAPOLIS 2, MINNESOTA

July 8, 1952



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

Dear Mr. Riefler:

We should appreciate receiving an additional
fifteen printed copies of the June 19, 1952 amendment
to the regulation of the Federal Open Market Committee.

Very truly yours,

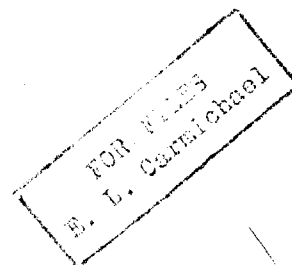
M. H. Strothman, Jr.

M. H. Strothman, Jr.
Vice President

MHS:D

B.L.S.
JUL 11 1952

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B. A. CARTER

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FEDERAL RESERVE BANK OF SAN FRANCISCO

SAN FRANCISCO 20, CALIFORNIA

July 7, 1952

REC'D IN FILES SECTION
JUL 14 1952
70mc
Regulation

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

Dear Mr. Riefler:

✓ Thank you for the fifteen copies of the
June 19, 1952, amendment to Section 8 of the Federal Open
Market Committee Regulation which you enclosed with your
letter of July 3/ If available, we should like to have
fifty additional copies of this amendment.

Very truly yours,

C. E. Earhart

C. E. Earhart,
President.

G. L. S.
JUL 11 1952

50 copies

FOR FILE
B. L. Carter

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F. R. 638
Rev. Sept. 1946

REQUEST FOR PUBLICATIONS AND RELEASES

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Date July 3, , 19 52 *X*

FORM OF REQUEST

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Letter ☐ Personal call ☐

Person or organization Presidents of all F. R. Banks
Attention of: _____
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City and zone _____
State _____

(Letters and labels sent from Mr. Sherman's office)

No. copies	<u>Publications and Releases</u>	Called for	To be sent
---------------	----------------------------------	---------------	---------------

15 copies each of Amendment to Section No. 8 of the Federal Open Market

Committee to be sent to the following with accompanying letter signed
by Mr. Winfield W. Riefler, Secretary, Federal Open Market Committee ; letter
dated July 3. Letters and labels attached.

Mr. Erickson, F. R. Bank of Boston

Mr. Sproul,	New York	Mr. Young	Chicago
Mr. Williams	Philadelphia	Mr. Johns	St. Louis
Mr. Gidney	Cleveland	Mr. Powell	Minneapolis
Mr. Leach	Richmond	Mr. Leedy	Kansas City

Mr. Bryan

Remittance received: _____

Atlanta

Complimentary _____

Mr. Gilbert ~~PO Dallas~~

Mr. Earhart ~~San Francisco~~

MAILED

CARTER

July - 3 - 52

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

RECEIVED
JUL 23 1952
70mc

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 3, 1952.

Dear Sir:

Supplementing my letter of June 27, 1952, we
are enclosing 15 printed copies of the amendment to
section 8 of the Federal Open Market Committee regulation
adopted effective June 19, 1952. Should you need addition-
al copies of this amendment, please let us know and we
shall be glad to furnish them to you.

Very truly yours,

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

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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R. R. GILBERT
PRESIDENT

FEDERAL RESERVE BANK
OF DALLAS

July 1, 1952

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JUL 16 1952
70mc

Regulations

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

Dear Mr. Riefler:

I acknowledge receipt of your letter of June 27, ³⁻³⁴⁷¹
referring to the action of the Federal Open Market Committee
at its meeting on June 19, 1952 with reference to purchases
by the Federal Reserve Banks of prime eligible bankers' ac-
ceptances in the open market. It is observed that the Com-
mittee has fixed the minimum buying rate on acceptances at
1-3/4 per cent per annum.

With best regards, I am,

Sincerely yours,

R. R. Gilbert
R. R. Gilbert
President

*Some
files
m-a*

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REC'D IN FILES SECTION
JUL 1 1952
HOC

July 1, 1952.

Supply Room

Miss Dorsey

Building distribution of the
Amendment to the Federal Open Market
Committee, Regulation Relating to Open
Market Operations of Federal Reserve Banks.

are
As requested by Mr. Hackley, please make the following building
distribution of the Amendment to Section 8 of the Federal Open Market
Committee, Regulation Relating to Open Market Operations of the Federal
Reserve Banks:

Board Members

Chairman Martin
Governor Szymczak
Governor Evans
Governor Vardaman
Governor Powell
Governor Mills
Governor Robertson

Mr. Thurston
Mr. Riefler
Mr. Thomas
Mr. Fauver
Mr. Cherry

Office of the Secretary

Mr. Carpenter

Mr. Sherman

Mr. Kenyon

Legal Division

Mr. Vest

Mr. Solomon

Mr. Hackley

Office of the Solicitor

Mr. Townsend

Mr. Chase

Division of Research and Statistics

Mr. Young
Mr. Garfield

Mr. Williams
Miss Barr

Division of International Finance

Mr. Marget

Mr. Dembits

Division of Examinations

Mr. Sleen
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Mr. Nelson
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Mr. Masters

FOR FILES
E. L. Carmichael

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- 2 -

TO: Supply Room

Division of Bank Operations

Mr. Leonard

Mr. Horbett

Mr. Myrick

Division of Personnel Administration

Mr. Dwight Allen

Mr. Sprecher

Division of Administrative Services

Mr. Bethea

Mr. Kelleher

Mr. E. J. Johnson

Division of Selective Credit Regulation

Mr. Noyes

Mr. Boothe

Mr. Benner

M.E.V. MKD:lao
cc: Mr. E. J. Johnson

FOR FILES
E. L. Carmichael

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

REC'D IN FIN. SECTION

JUL 2 1952

Z-3471 (On office
copies only)

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 27, 1952.

X Z-3471

Confidential

Carded

Dear Sir:

At the meeting of the Federal Open Market Committee on June 19, 1952, the Committee adopted an amendment to Section 8 of the regulation of the Federal Open Market Committee in the form set forth in the recommendations regarding bankers' acceptances adopted at the meeting of the executive committee on April 21, 1952, a copy of which was sent to you under date of May 7, 1952. A copy of the amendment is enclosed.

The Full Committee also approved the recommendations of the executive committee to the Federal Open Market Committee that:

(a) Each Federal Reserve Bank be authorized to purchase prime eligible bankers' acceptances in the open market from banks and financially responsible experienced dealers and to hold such acceptances in its own portfolio.

(b) The minimum buying rate on such prime eligible bankers' acceptances shall be fixed by the Federal Open Market Committee at this time at 1-3/4 per cent, subject to change from time to time by the Committee in order to carry out its policies.

(c) The effective rates at which a Federal Reserve Bank may purchase bankers' acceptances shall be not less than the minimum buying rate and shall be specified from time to time by the Manager of the System Open Market Account in the light of market conditions and developments and in accordance with any directives or limitations prescribed by the full Committee or the executive committee for the purpose of carrying out the current policies of the Federal Open Market Committee. Any change in the effective buying rates on bankers' acceptances shall be promptly reported by the Manager of the Account to the Federal Open Market Committee.

*Copies filed
General
Z-letters*

332.03

Jones

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-2-

At the meeting of the executive committee of the Federal Open Market Committee also held on June 19, the executive committee noted that the Federal Open Market Committee in adopting the recommendations set forth above fixed the minimum buying rate on bankers' acceptances at one and three quarters per cent, subject to change from time to time by the Committee.

Very truly yours,



Winfield W. Riefler, Secretary,
Federal Open Market Committee

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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AMENDMENT TO REGULATION OF THE FEDERAL OPEN MARKET COMMITTEE

The Federal Open Market Committee amended its Regulation, effective June 19, 1952, by changing section 8 thereof to read as follows:

SECTION 8. OTHER OPEN MARKET OPERATIONS

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

(1) Each Federal Reserve bank, as may be required from time to time by the Committee, shall report all such transactions to the Secretary of the Committee.

(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased: Provided, That no obligations payable in foreign currency shall be purchased or sold for the account of the Federal Reserve bank except in accordance with directions of the Committee.

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

(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee.

DECLASSIFIED
Authority E.O. 10501

JUN 28 1952
June 27, 1952.

Mr. Twomey

Miss Dorsey

Please do not distribute on the K.6 mailing list, copies of the Amendment to Federal Open Market Committee, Regulation Relating to Open Market Operations of Federal Reserve Banks. When the printing is completed send all copies to the Supply Room.

cc: Mr. Johnson

MED:lac

H.E.D.

FILE COPY

FOR FILES
E. L. Carmichael

DECLASSIFIED
Authority E.O. 10501

UNCLASSIFIED
June 27, 1952.

Supply Room-- Mr. Yilek

Miss Dorsey

Please do not make any building distribution of copies of
the Amendment to Federal Open Market Committee, Regulation Relating
to Open Market Operations of Federal Reserve Banks.

cc: Mr. Johnson

MED:lac

M. E. D.

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IN FILES SECTION
JUN 27 1952
HOM. Regulation

AMENDMENT TO REGULATION OF THE FEDERAL OPEN MARKET COMMITTEE

The Federal Open Market Committee amended its Regulation, effective June 19, 1952, by changing section 8 thereof to read as follows:

SECTION 8. OTHER OPEN MARKET OPERATIONS

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

(1) Each Federal Reserve bank, as may be required from time to time by the Committee, shall report all such transactions to the Secretary of the Committee.

(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased: Provided, That no obligations payable in foreign currency shall be purchased or sold for the account of the Federal Reserve bank except in accordance with directions of the Committee.

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

(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee.

HHH:jc
6-20-52

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FCP
R. CHASE

30

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REC'D
JUL 3 1952
Some Regulation

RECOMMENDATIONS REGARDING BANKERS' ACCEPTANCES

(Adopted at Meeting of Executive Committee of Federal Open Market Committee on April 21, 1952.)

4/21/52

I. The executive committee recommends to the Federal Open Market Committee:

That section 8 of the Regulation of the Federal Open Market Committee be amended to read as follows:

"SECTION 8. OTHER OPEN MARKET OPERATIONS

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

"(1) Each Federal Reserve bank, as may be required from time to time by the Committee, shall report all such transactions to the Secretary of the Committee.

"(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased: Provided, That no obligations payable in foreign currency shall be purchased or sold for the account of the Federal Reserve bank except in accordance with directions of the Committee.

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

"(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee."

II. The executive committee also recommends to the Federal Open Market Committee that:

A. Each Federal Reserve Bank be authorized to purchase prime eligible bankers' acceptances in the open market from banks and financially

This is the form in which the ex. com. recommended changes in handling bankers' acceptances to the FOMC. Copies of above amendment (proposed) + other changes sent R.B. Pres. 5/7/52

Some Reg files

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Authority E.O. 10501

-2-

responsible experienced dealers and to hold such acceptances in its own portfolio.

B. The minimum buying rate on such prime eligible bankers' acceptances shall be fixed by the Federal Open Market Committee at this time at 1-3/4 per cent, subject to change from time to time by the Committee in order to carry out its policies.

C. The effective rates at which a Federal Reserve Bank may purchase bankers' acceptances shall be not less than the minimum buying rate and shall be specified from time to time by the Manager of the System Open Market Account in the light of market conditions and developments and in accordance with any directives or limitations prescribed by the full Committee or the executive committee for the purpose of carrying out the current policies of the Federal Open Market Committee. Any change in the effective buying rates on bankers' acceptances shall be promptly reported by the Manager of the Account to the Federal Open Market Committee.

April 21, 1952.

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L 344

POSSIBLE REVISION OF SECTION 8
OF REGULATIONS OF THE FEDERAL OPEN MARKET COMMITTEE

NOTED IN FILES SECTION
FEB 26 1952
Home - Regulation

Change section 8 to read as follows: X L-1644

SECTION 8. OTHER OPEN MARKET OPERATIONS

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

(1) Each Federal Reserve bank, as may be required from time to time by the Committee, shall report all such transactions to the Secretary of the Committee.

(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased: Provided, That no obligations payable in foreign currency shall be purchased or sold for the account of the Federal Reserve bank except in accordance with directions of the Committee.

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

(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee.

2-25-52

Copy filed
L- Letters

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CHANGES WHICH WOULD BE MADE BY PROPOSED REVISION OF
SECTION 8 OF OPEN MARKET REGULATIONS

The proposed redraft of section 8 of the Regulation of the Federal Open Market Committee would make only the following changes:

1. In subparagraph (2), with respect to acceptances and bills of exchange, the redraft would omit the words "and the rates of discount shall be established in accordance with the provisions of section 14(d) of the Federal Reserve Act", so that the present procedure for establishing rates on purchases of bankers' acceptances would no longer be followed and such rates would hereafter be fixed by the Open Market Committee as is now the case with respect to rates on repurchase agreements covering Government securities.

2. In the same subparagraph (2), the proviso would begin simply with the word "Provided" instead of the words "Provided, further".

3. In subparagraph (4), with respect to dealings in cable transfers, the proviso relating to dealings through the Habana Agency would be omitted as obsolete.

2-25-52

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F. R. 638
Rev. Sept. 1946

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Street address *F. R. Post Office Station*
City and zone *New York City 7*
State _____

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*Federal Open Market
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JAN 24 1947

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E. L. Carmichael

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Rev. Sept. 1946

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Date November 14, 1946

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Person or organization F. R. Bank of New York
Attention of: Att. Mr. Alfred Hudson
Street address F. R. Post Office Station
City and zone New York City 7
State _____

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Federal Open Market
Committee Regulation

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F. L. Watkins

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November 13, 1946.

Miss Eleanor Howard, Librarian,
Pittsburgh Branch,
Federal Reserve Bank of Cleveland,
Pittsburgh 19, Pennsylvania.

Dear Miss Howard:

In accordance with the request in your letter of November 8, we are sending to you under separate cover four copies of each of the following:

Rules of Organization and Rules of
Procedure (Board of Governors of
the Federal Reserve System)

Rules on Organization and Information
and Rules on Procedure (Federal Open
Market Committee)

Memorandum on Economic Outlook, by
Chairman Eccles

We regret that we no longer have copies of the address by
Mr. Woodlief Thomas entitled "Postwar Monetary Problems and
Policies."

Very truly yours,

Supervisor, Publications Section,
Division of Administrative Services.

ELC:gma

FILE COPY

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PITTSBURGH BRANCH
FEDERAL RESERVE BANK
OF CLEVELAND

PITTSBURGH 19, PA.

November 8, 1946

Board of Governors of the
Federal Reserve System
Washington 25, D.C.

Dear Sirs:

We would appreciate receiving four copies of each of the following publications for our information files:

Postwar Monetary Problems & Policies, by Woodlief Thomas. (Mr. Thompson)

Memorandum on Economic Outlook, by Marriner Eccles.

Rules on Organization & Information, and Rules on Procedure
Issued Pursuant to Administrative Procedure Act & Federal
Reserve Act. Effective September 11, 1946.

Rules of Organization & Rules of Procedure Issued Pursuant
to the Administrative Procedure Act, and Other Revelant
Provisions of Law. Effective September 11, 1946.

Yours truly,

Eleanor Howard

Librarian

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IN FILES SECTION
NOV 14 1946
FOMC Regulation
mc

NOV - 7 1946

Mr. Martin L. Loftus, Librarian,
International Monetary Fund,
Washington 6, D. C.

Dear Sir:

We are glad to comply with the request in your letter
of November 6, and accordingly we are sending you herewith a
copy of the Federal Open Market Committee's Rules on Organiza-
tion and Information and Rules on Procedure.

Very truly yours,

S. R. Carpenter,
Assistant Secretary,
Federal Open Market Committee.

Enclosure

JK:cm

gk

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JCB

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*Mr. Carpenter
Miss Krueger
pls inform*

INTERNATIONAL MONETARY FUND

WASHINGTON 6, D. C.

November 6, 1946

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NOV 14 1946 *HT*
CABLE ADDRESS
INTERFUND

Dear Sir:

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Packet*
We shall appreciate receiving the "Rules on Organization and Information, and Rules on Procedure, September 11, 1946" for the use of the International Monetary Fund.

If there is a charge, please notify us before mailing.

Thank you for your courtesy in this matter.

Yours very truly,

Martin L. Loftus

Martin L. Loftus
Librarian

Federal Open Market Committee
Federal Reserve System
Washington 25, D.C.

file JCB

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OCT 16 1946
Femoregulation
mc

10/14/46

telephone call
10/14

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OCT 16 1946

AB of NY
Att: Mr. Alfred J. Hudson
Chief, Press & Circulars Div.
Federal Reserve P. O. Station
NYC - 7

50 copies - Federal Open Market
Committee - Rules on Organization
& Information & Rules on Procedure

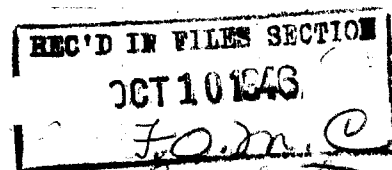
✓ 200 - 1945 Annual Report

Mailed
O. Johnson

FOR FILES
E. L. Carmichael

[Signature]

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Regulations
October 4, 1946.

Supply Room

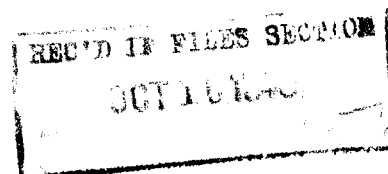
Miss Carmichael

Please make the same distribution of Rules on Organization and Information and Rules on Procedure (Federal Open Market Committee), and Rules of Organization and Rules of Procedure (Board of Governors) in the building as in the case of regulations.

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October 4, 1946.

Mr. Twomey

Miss Carmichael

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Federal Reserve Bank of Philadelphia	25
Federal Reserve Bank of Cleveland	25
Federal Reserve Bank of Richmond	50
Federal Reserve Bank of Atlanta	12
Federal Reserve Bank of Chicago	5
Federal Reserve Bank of St. Louis	12
Federal Reserve Bank of Minneapolis	100
Federal Reserve Bank of Kansas City	200
Federal Reserve Bank of Dallas	5
Federal Reserve Bank of San Francisco	10
Total	552

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OCT 10 1948

Some Regulations

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BOARD

RE BOARD'S LETER AUGUST TWENTY-EIGHT, ANTICIPATE TEN PRINTED
COPIES OF FEDERAL OPEN MARKET COMMITTEE RULES OF ORGANIZATION
AND PROCEDURE SUFFICIENT FOR OUR PURPOSES

WILLETT

FOR FILES
H. L. Carmichael

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TELETYPE
UNIT
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.
20540

Miss Carmichael

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OCT 10 1943

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~~CARPENTER~~ CARPENTER

YOUR WIRE. TWELVE COPIES EACH OF RULES OF ORGANIZATION AND RULES
OF PROCEDURE AND FEDERAL OPEN MARKET COMMITTEE RULES ON ORGANIZATION
AND INFORMATION AND RULES ON PROCEDURE WILL MEET THE REQUIREMENTS
OF THIS OFFICE AND BRANCHES. SORRY REQUEST YOUR LETTERS 23RD AND
28TH WAS OVERLOOKED.

MCLARIN.

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

iss Carmichael

1946 SEP 21 PM 12 32

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OCT 10 1946
Yone Regulations

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CARPENTER

RETEL TODAY WILL REQUIRE TWENTY FIVE COPIES FEDERAL OPEN MARKET

COMMITTEE RULES

GIDNEY.

FOR FILMS
H. L. Carmichael

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

Mr. Burton

Miss Carmichael

1946 SEP 20 PM 3 22

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OCT 10 1946
Some Regulation

WB11 WASH B57T B08 20-210

CARPENTER BOARD

REUWIRE SEPTEMBER NINETEEN UNABLE TO LOCATE YOUR ~~LETTER~~ LETTER

AUGUST TWENTY-EIGHT PLEASE FORWARD COPY

WILLETT.

*Copy sent
Mr. Willett
JCB
9-20-46*

FOR FILES
E. L. Carmichael

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

REC'D IN FILES SECTION
SEP 23 1946 *CH*
Home-Regulations
me

September 19, 1946.

Whittemore - Boston

In re our letter of August 28, please wire require-
ments for copies of Federal Open Market Committee Rules on
Organization and Information and Rules on Procedure.

(Signed) S. H. Carpenter

Carpenter.

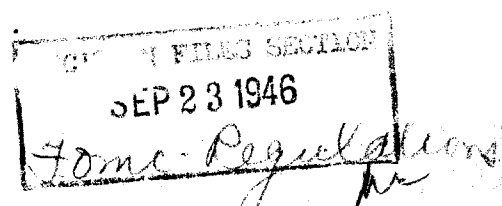
g.l.c.
ELC:mtc
[Signature]

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



September 19, 1946.

Gidney - Cleveland

Inre our letter of August 28, please wire
requirements for copies of Federal Open Market Committee
Rules on Organization and Information and Rules on Procedure.

(Signed) S. R. Carpenter
Carpenter.

E.L.C.

A handwritten signature, possibly "W.C. Cinto", written over the word "FILE".

W.C. Cinto

FILE COPY

Fig. B

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Authority E.O. 10501

REC'D IN FILES SECTION
SEP 6 - 1946
Some Regulations
pe

September 5, 1946

To: Mr. Morrill
Mr. Thurston
Mr. Paulger
Mr. Smead
Mr. Parry
Mr. Thomas
Mr. Vest
Mr. Bethea
Mr. Leonard
Mr. Nelson

From: Mr. Carpenter

see letter 8/28/46

Attached are copies of the Federal Open Market
Committee Rules on Organization and Information and
Rules on Procedure issued in compliance with section 3
of the Administrative Procedure Act and approved by the
Committee to become effective September 11, 1946.

Attachments

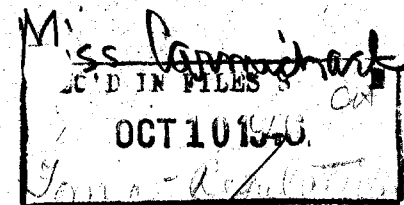
[Signature]
ERC/mg

FILE COPY

FOR FILES
Main Section

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Authority E.O. 10501

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



1946 SEP 4 PM 3 08

WA00GC92WASH L46 SF 4-1159

BOARD CARPENTER

REURLET AUGUST 28 PLEASE FURNISH US WITH 10 ADDITIONAL COPIES OF
RULES OF FEDERAL OPEN MARKET COMMITTEE.

CLERK.

FOR FILES
E. L. Carmichael

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Authority E.O. 10501

Miss Carmichael

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

1946 SEP 4 PM 4 36

REC'D IN FILES SECTION
OCT 10 1946
James Beatty

WA 28GC62WASH GX261 CGO 4-423
CARPENTER

SHALL APPRECIATE YOUR SENDING US FIVE COPIES OF REPRINTS
OF FEDERAL OPEN MARKET COMMITTEE RULES ON ORGANIZATION AND
RULE ON PROCEDURE MENTIONED YOUR LETTER AUGUST 28

YOUNG

NOT FILED
E. L. O'Connell

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

REC'D IN FILES SECTION
OCT 10 1946
Home Regulation
1946 SEP 14 PM 12 13

WB01GC98BD WASH J56 KC 4-1104A

CARPENTER

Letter 7/29/46
REFERENCE YOUR REQUEST AS TO NUMBER OF PRINTED COPIES OF FEDERAL
OPEN MARKET COMMITTEE RULES ON ORGANIZATION AND INFORMATION AND
RULES ON PROCEDURE UNDER ADMINISTRATIVE PROCEDURE ACT WHICH WE
WILL REQUIRE, WE ESTIMATE THAT TWO HUNDRED WILL BE SUFFICIENT

LEEDY.

E. L. Carmichael

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Authority E.O. 10501

FEDERAL RESERVE BANK
OF NEW YORK 7

M. Carpenter

RECEIVED BY FILES SECTION
SEP 9 - 1946

September 4, 1946.

Honorable M. S. Eccles, Chairman,
Federal Open Market Committee,
c/o Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Chairman Eccles:

The receipt is acknowledged of the letter dated August 15, 1946, and of the copies enclosed therewith of the revised drafts of proposed "Rules on Organization and Information" and "Rules on Procedure" of the Federal Open Market Committee for publication in conformity with the provisions of Section 3 of the Administrative Procedure Act.

I have noted the changes in the revised drafts, from the prior drafts enclosed with the letter of July 26, 1946.

I approve of the adoption and publication by the Federal Open Market Committee of the proposed rules in the form of the revised drafts, to become effective September 11, 1946.

Yours faithfully,

Allan Sproul

Allan Sproul, Vice Chairman,
Federal Open Market Committee.

W. J. [unclear]



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Miss Carmichael

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

REC'D IN FILES SECTION
OCT 10 1946
James Regulation

1946 SEP 5 PM 4 28

WB26G77WASH H265 STL 3-412
CARPENTER BOARD

REURLETTER AUGUST 28. THIS BANK WILL NEED TWELVE ADDITIONAL COPIES
FEDERAL OPEN MARKET COMMITTEE RULES ON ORGANIZATION ^{AND} ~~AND~~ INFORMATION
AND RULES ON PROCEDURE

DAVIS .

FOR FILES
E. L. Carmichael

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Authority E.O. 10501

RECEIVED
OCT 10 1946
Monetary-Regulations
me
Wm. Carmichael

FEDERAL RESERVE BANK
OF NEW YORK

September 3, 1946.

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

Dear Mr. Carpenter:

Referring to your letter of August 28, 1946, we would appreciate receiving 100 copies of the Federal Open Market Committee Rules on Organization and Information and Rules on Procedure issued in compliance with section 3 of the Administrative Procedure Act. ✓

This will confirm my request to you by telephone the other day that you furnish this bank with 500 copies of the Board's Rules of Organization and Rules of Procedure pursuant to section 3 of the Administrative Procedure Act.

Very truly yours,

William F. Treiber

William F. Treiber,
Secretary.



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

Miss Carmichael

1946 AUG 31 PM 12 51

REC'D IN FILES SECTION

OCT 10 1946

Zone Regulations

WA46GC37WASH 128 MPLS 31-1145

CARPENTER-BOARD

REURLET 28 ONE HUNDRED COPIES RULES ON ORGANIZATION AND INFORMATION
AND ~~REURLET~~ RULES ON PROCEDURE OF FEDERAL OPEN MARKET COMMITTEE MIGHT BE
USEFUL HERE

PEYTON.

E. L. Carmichael

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Authority E.O. 10501

REC'D IN FILES SECTION

OCT 10 1946

FEDERAL RESERVE BANK
OF DALLAS

R. R. GILBERT
PRESIDENT

August 31, 1946

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

Dear Mr. Carpenter:

I have your letter of August 28, enclosing three
copies of the Federal Open Market Committee Rules on Organi-
zation and Information and Rules on Procedure, issued pursuant
to section 3 of the Administrative Procedure Act. It will be
appreciated if you will send us three additional copies of these
rules.

Sincerely yours,

R. R. Gilbert
R. R. Gilbert
President

RECEIVED
FEDERAL RESERVE BANK
OF DALLAS
AUG 31 1946

1046 SEP 3 7 11 3 46

RECORDED

FOR FILE
E. L. Carmichael

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Authority E.O. 10501

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

1946 AUG 30 PM 12 53

W. Carmichael
REC'D IN FILES SECTION

OCT 10 1946 *CH*

Moni-Regulation

WA76WASH C89 PHILA 30-347P

CARPENTER

BOARD

RELET ²⁹ AUGUST ~~20~~. PLEASE FORWARD 25 COPIES FEDERAL OPEN MARKET
COMMITTEE RULES ON ORGANIZATION AND INFORMATION AND RULES ON
PROCEDURE.

VERGARI.

E. L. Carmichael

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Authority E.O. 10501

74

FEDERAL RESERVE BANK
OF CLEVELAND

REC'D IN FILES SECTION
OCT 10 1946

RAY M. GIDNEY, PRESIDENT

August 30, 1946

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

Dear Mr. Carpenter:

Receipt is acknowledged of your letter of
^{August}
~~October~~ 28 with mimeographed copies of Federal Open
Market Committee Rules on Organization, and Infor-
mation and Rules on Procedure.

Sincerely yours,

Ray M. Gidney
Ray M. Gidney,
President.

John E. L.
FEB 1 1947
F. L. Carpenter

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Authority E.O. 10501

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

REC'D 10-10-10
OCT 10 1946
1946 AUG 29 PM 2 23
Finance-Regulation

W. R. Barker
Miss Carmichael

WA96WASH RH 67. RICH 29-221

CARPENTER

8/28/46

YOUR LETTER: I ANTICIPATE WE WILL NOT NEED MORE THAN FIFTY COPIES
OF FEDERAL OPEN MARKET COMMITTEE RULES ON ORGANIZATION AND INFORMATION
AND RULES ON PROCEDURE

LEACH.

✓

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Authority E.O. 10501



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

IN FILES 9
AUG 29 1946
Monetary Regulation
mc

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 28, 1946.

Dear Sir:

Enclosed are several mimeographed copies of Federal Open Market Committee Rules on Organization and Information and Rules on Procedure issued in compliance with section 3 of the Administrative Procedure Act. The adoption of these rules, to become effective September 11, 1946, has been approved by the members of the Committee; and this action will be brought before the next meeting of the Committee for ratification.

The rules differ only in minor respects from the preliminary drafts which were enclosed with my letter of July 26, 1946. No changes in the drafts were suggested by the Presidents of eight of the Federal Reserve Banks and relatively few were suggested by the others. *See FOMC General*

The rules will be published in the Federal Register and also will be printed for distribution to interested persons. In order to aid us in determining the number necessary to be printed, it will be appreciated if you will advise by wire the number which you anticipate your Bank may need.

Very truly yours,

S. R. Carpenter
S. R. Carpenter, Assistant Secretary,
Federal Open Market Committee.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

*Copy filed
FOMC General*

L-1193 & L-1192 attached

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Authority E.O. 10501

R D IF FILES S (M)
AUG 29 1946

AUG 28 1946

Dear Sir:

Enclosed are several mimeographed copies of Federal Open Market Committee Rules on Organization and Information and Rules on Procedure issued in compliance with section 3 of the Administrative Procedure Act. The adoption of these rules, to become effective September 11, 1946, has been approved by the members of the Committee; and this action will be brought before the next meeting of the Committee for ratification.

The rules differ only in minor respects from the preliminary drafts which were enclosed with my letter of July 26, 1946. No changes in the drafts were suggested by the Presidents of eight of the Federal Reserve Banks and relatively few were suggested by the others.

The rules will be published in the Federal Register and also will be printed for distribution to interested persons. In order to aid us in determining the number necessary to be printed, it will be appreciated if you will advise by wire the number which you anticipate your Bank may need.

Very truly yours,

(Signed) S. R. Carpenter
S. R. Carpenter, Assistant Secretary,
Federal Open Market Committee.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

FILE COPY

Home File
JCB

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Authority E.O. 10501

FEDERAL OPEN MARKET COMMITTEE

RULES ON ORGANIZATION
AND INFORMATION

and

RULES ON PROCEDURE

Issued Pursuant to
ADMINISTRATIVE PROCEDURE ACT
and Federal Reserve Act

Effective September 11, 1946

DECLASSIFIED
Authority E.O. 10501

L-1192
8/28/76
wed

FEDERAL OPEN MARKET COMMITTEE

RULES ON PROCEDURE

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SEC. 2. COMMITTEE ACTION	1
SEC. 3. NOTICE AND PUBLIC PROCEDURE	2
SEC. 4. EFFECTIVE DATE	2
SEC. 5. SUBMITTALS, PETITIONS AND REQUESTS.	3

Copy filed
L. Letters

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Authority E.O. 10501

FEDERAL OPEN MARKET COMMITTEE

RULES ON PROCEDURE

Sec. 1. Basis and Scope. - These rules are issued by the Federal Open Market Committee (hereinafter sometimes called the Committee) pursuant to the Administrative Procedure Act and the Federal Reserve Act. They include the rules specified by section 3(a)(2) of the Administrative Procedure Act.

Sec. 2. Committee Action. - The function of the Committee is the direction and regulation of open market operations which are conducted by the Federal Reserve Banks. This involves the determination of the policies which are to be pursued with respect to the purchase and sale of securities by the Federal Reserve Banks with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country, together with consideration and action upon incidental matters relating to the manner in which such operations are to be conducted. The discharge of the Committee's responsibilities requires the continuous gathering of information and study of changing financial, economic, and credit conditions and other pertinent considerations by the members of the Committee and its personnel. These activities are closely interrelated with other activities of the Board of Governors of the Federal Reserve System and the Federal Reserve Banks and all relevant information and views developed by these organizations are available to the Committee. With this background, action is taken by the Committee upon

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Authority E.O. 10501

-2-

its own initiative at periodic meetings held at least four times each year and oftener if deemed necessary. Attendance at Committee meetings is restricted to members of the Committee and its official staff, the Manager of the System Open Market Account, the Presidents of Federal Reserve Banks who are not at the time members of the Committee, and such other advisers as the Committee may invite from time to time. The Committee acts through the adoption and transmittal of directives and regulations to its Executive Committee or to the Federal Reserve Banks. Operations in the System Open Market Account are conducted under the direction of the Executive Committee pursuant to directives issued by the Committee.

Sec. 3. Notice and Public Procedure. - There ordinarily will be no published notice of proposed action by the Committee or public procedure thereon, as described in section 4 of the Administrative Procedure Act, because such notice and procedure is impracticable, unnecessary, or contrary to the public interest for one or both of the following reasons:

(a) Non-disclosure of information is required in the public interest for reasons stated in section 6(d) of the Committee's Rules on Organization and Information; and

(b) Expeditious and timely action, without the delay incident to such notice and procedure, is required in the public interest.

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-3-

Sec. 4. Effective Date. - Committee action ordinarily will be made effective on the date the action is taken because the nature of the subject matter and the action taken is such that the public interest and the proper discharge of the Committee's responsibilities so require.

Sec. 5. Submittals, Petitions, and Requests. - Submittals, petitions, and requests may be made to the Committee at any time in the manner stated in section 5 of the Committee's Rules on Organization and Information. They will be considered by members of the Committee's official staff and, where appropriate, will be brought to the attention of the members of the Committee or its Executive Committee for consideration and any necessary action.

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L-1193
8/28/46

FEDERAL OPEN MARKET COMMITTEE
RULES ON ORGANIZATION AND INFORMATION

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Copy filed
L. Q. Letters

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FEDERAL OPEN MARKET COMMITTEE

RULES ON ORGANIZATION AND INFORMATION

Sec. 1. Basis and Scope. - These rules are issued by the Federal Open Market Committee (hereinafter sometimes called the Committee) pursuant to the Administrative Procedure Act and the Federal Reserve Act. Included therein are the rules specified by sections 3(a)(1), 3(b), and 3(c) of the Administrative Procedure Act.

COMPOSITION AND MEETINGS OF COMMITTEE

Sec. 2(a) Members. - The Federal Open Market Committee consists of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve Banks who are Presidents or First Vice Presidents of such banks. The representatives of the Federal Reserve Banks, and an alternate for each representative, are elected in accordance with section 12A of the Federal Reserve Act for terms of one year commencing on March 1 of each year.

(b) Chairman and Vice Chairman. - At its first meeting on or after March 1 of each year, the Committee selects a Chairman and a Vice Chairman from among its membership.

(c) Meetings. - The Committee meets at Washington, D. C., on call by the Chairman of the Board of Governors of the Federal Reserve System or at the request of three members of the Committee, at least four times each year and oftener if deemed necessary.

EXECUTIVE COMMITTEE

Sec. 3(a) Members. - At its first meeting on or after March 1

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-2-

of each year, the Federal Open Market Committee selects from among its membership an Executive Committee consisting of three members of the Board of Governors of the Federal Reserve System and two of the representatives of the Federal Reserve Banks. Alternates to serve in the absence of members of each group represented on the Executive Committee are likewise selected. The Chairman of the Federal Open Market Committee is one of the members of the Executive Committee and serves as its Chairman.

(b) Meetings. - The Executive Committee meets periodically, on call of the Chairman or at the request of two members, as necessary in the performance of the duties assigned to it.

(c) Duties. - The duties of the Executive Committee are:

(1) To direct the execution of transactions in the open market in accordance with open-market policies adopted by the Federal Open Market Committee;

(2) To allocate the Government securities and other obligations held in the System Open Market Account among the several Federal Reserve Banks in accordance with the principles determined by the Federal Open Market Committee;

(3) To keep the members of the Federal Open Market Committee informed of all transactions executed under the direction of the Federal Open Market Committee and of all allocations and reallocations of Government securities and other obligations held in the System Open Market Account; and

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-3-

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

OTHER PERSONNEL

Sec. 4(a) Official Staff. - The official staff of the Federal Open Market Committee includes its Secretary, Assistant Secretary, General Counsel, Assistant General Counsel, Economist, and Associate Economists, who perform the duties indicated by their titles. These staff members are selected from among the officers and employees of the Board of Governors of the Federal Reserve System and the Federal Reserve Banks.

(b) System Open Market Account. - One of the Federal Reserve Banks is selected by the Committee to execute transactions for the System Open Market Account. Such bank selects a Manager of the System Open Market Account, satisfactory to the Committee.

(c) Others. - The services of other officers and employees of the Board of Governors of the Federal Reserve System and Federal Reserve Banks are made available and are utilized by the Committee as required.

SUBMITTALS, PETITIONS, AND REQUESTS

Sec. 5(a) Place. - The mailing address of the Federal Open Market Committee is: Federal Reserve Building, 20th Street and Constitution Avenue, Washington 25, D. C. The Committee customarily meets at the offices of the Board of Governors of the Federal Reserve System at that address.

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-4-

(b) Method. - All submittals, petitions, and requests, including requests for access to information, shall be made in writing and mailed to the Committee at the address stated in section 5(a) of these rules. Any petition or request shall be signed by the person making it, or his duly authorized agent, and shall, in so far as practicable, clearly, completely and concisely state his full name and address, the facts involved (including the purposes for which any unpublished information requested will be used if made available), the action desired, the person's interest in the matter, and the reasons why the petition or request should be granted.

AVAILABILITY OF INFORMATION

Sec. 6(a) Federal Register. - Rules describing the Committee's organization and procedure and any substantive rules or statements of policy which are formulated and adopted by the Committee for the guidance of the public will be published in the Federal Register.

(b) Policy Record. - A complete record of the actions taken by the Committee during the preceding year upon all matters of policy relating to open market operations, showing the votes taken and the reasons underlying the actions, is included in each annual report made to Congress by the Board of Governors of the Federal Reserve System in accordance with Section 10 of the Federal Reserve Act.

(c) Unpublished Information. - Except as may be specifically authorized by the Committee or its Executive Committee, or as may be required in the performance of duties for, or pursuant to the direction of,

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-5-

the Committee, no person shall disclose, or permit the disclosure of, any unpublished information of the Committee to anyone, whether by giving out or furnishing such information or copy thereof, by allowing any person to inspect, examine or copy such information or copy thereof, or by any other means. Unpublished information of the Committee shall include all information concerning the proceedings, deliberations, discussions, and actions of the Committee and all information or advice coming to the Committee or to any member of the Committee or any officer, employee or agent of the Committee, the Board of Governors of the Federal Reserve System, or any Federal Reserve Bank, in the performance of duties for, or pursuant to the direction of, the Committee, whether contained in files, memoranda, documents, reports, books, accounts, records, or papers or otherwise acquired and whether located at the offices of the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or elsewhere: Provided, That it shall not include information which has been published in accordance with sections 6(a) and 6(b) of these rules or information which is available to the public through other sources.

(d) Reasons for Non-disclosure. - The non-disclosure of unpublished information of the Committee generally is required in the public interest for one or more of the following reasons:

(1) Disclosure of unpublished information concerning policies with respect to future open market operations which are under consideration or have been adopted by the Committee, and of unpublished information which might aid in anticipating action by the Committee, would:

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-6-

(i) Interfere with the accomplishment of the objectives of the Committee's actions taken with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country;

(ii) Permit speculators and others to reap unfair profits or other unfair advantages by speculative trading in securities and otherwise;

(iii) Interfere with the orderly execution of policies adopted by the Committee;

(iv) Result in unnecessary and unwarranted disturbances in the securities markets;

(v) Make open market operations more costly to the Federal Reserve Banks;

(vi) Interfere with the orderly execution and accomplishment of the objectives of policies adopted by other Government agencies concerned with economic and fiscal matters; and

(vii) Cause misinterpretations and misunderstandings, with possible resultant impairment of public confidence in the nation's financial structure.

(2) The Committee's unpublished information includes much that is furnished to it on a secret or confidential basis and its disclosure would;

(i) Have the effects described in section 6(d)(1) of these rules;

(ii) Impede the necessary collection of information and advice, much of which cannot be obtained except on a confidential and voluntary basis; and

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-7-

(iii) Unreasonably and unnecessarily disturb and interfere with individual privacy and confidential business relationships.

(e) Requests for Unpublished Information. - Requests for access to unpublished information will be granted only if it clearly appears that disclosure of the information will not be contrary to the public interest for any of the reasons set forth in section 6(d) of these rules.

SUBPOENAS

Sec. 7(a) Advice by Person Served. - If any person, whether or not an officer or employee of the Committee, of the Board of Governors of the Federal Reserve System, or of a Federal Reserve Bank, has unpublished information of the Committee and in connection therewith is served with a subpoena, order, or other process requiring his personal attendance as a witness or the production of documents or information upon any proceeding, he shall promptly advise the Committee of such service and of all relevant facts, including the documents and information requested and any facts which may be of assistance in determining whether such documents or information should be made available; and he shall take action at the appropriate time to advise the court or tribunal which issued the process, and the attorney for the party at whose instance the process was issued, if known, of the substance of these rules.

(b) Appearance by Person Served. - Except as disclosure of the relevant information has been authorized pursuant to these rules,

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-8-

any such person who has unpublished information of the Committee and is required to respond to a subpoena or other legal process shall attend at the time and place therein mentioned and respectfully decline to produce any documents or disclose any information or give any testimony with respect thereto, basing his refusal upon these rules. If, notwithstanding, the court or other body orders the production of any documents, disclosure of any information, or giving of any testimony, the person having such unpublished information of the Committee shall promptly report the facts to the Committee.

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Authority E.O. 10501

OPEN FILES SECTION
APR 3 0 1942 R

Regulations

April 28, 1942.

Mr. Arthur E. Post, Secretary,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Mr. Post:

In compliance with your request of
April 27 addressed to the attention of
Mr. Morrill, we are sending you under separate
cover 50 copies of the Regulation of the Fed-
eral Open Market Committee, revised March 1,
1938, on Open Market Operations.

Very truly yours,

Bray Hammond, Chief,
Correspondence and Publications Section.

RR *Fap*
mar

FILE COPY

Mailed
F. L. Watkins

FOR FILES
Bray Hammond

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Authority E.O. 10501

FEDERAL RESERVE BANK
OF
PHILADELPHIA

IN FILES SECTION
APR 3 0 1942
For me

Regulations

April 27, 1942

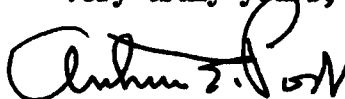
Board of Governors
of the Federal Reserve System
Washington, D. C.

Attention: Mr. Chester Morrill
Secretary

Dear Sirs:

We should appreciate receiving 50 copies
of the Regulation of the Federal Open Market Com-
mittee, revised March 1, 1938, on Open Market Op-
erations.

Very truly yours,

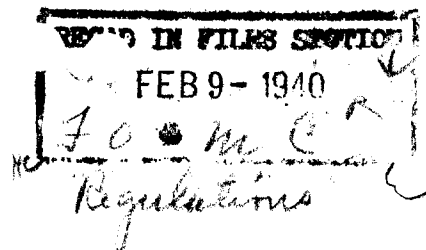


Arthur E. Post
Secretary

✓
MBR:EVJ

FOR FILES
Gray Hammond

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Authority E.O. 10501



February 7, 1940

Mr. C. M. Stewart, Cashier
Federal Reserve Bank of St. Louis
St. Louis, Missouri

Dear Mr. Stewart:

In accordance with the request con-
tained in your letter of February 5, 1940, 50
copies of "Regulation Relating to Open Market
Operations of Federal Reserve Banks" (revised
effective March 1, 1938) have been forwarded
to you today under separate cover.

Very truly yours,

(Signed) J. C. Noell

J. C. Noell,
Assistant Secretary

JHK:amp

A handwritten signature in dark ink, appearing to be "J. C. Noell", written over the typed name.

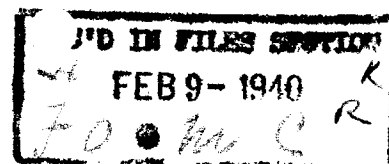
Attended
by Watkins

FILE COPY

FOR FILES
Phyllis E. Stewart

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Authority E.O. 10501

X
FEDERAL RESERVE BANK
OF
ST. LOUIS



Regulations

Carded

February 5, 1940.

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

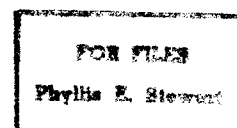
Gentlemen:

Please forward us 50 copies of
"Regulation Relating to Open Market Opera-
tions of Federal Reserve Banks" (revised
effective March 1, 1938).

Very truly yours,

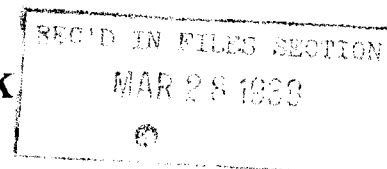
Phyllis E. Stewart
Cashier.

See letter 2/7/40



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Authority E.O. 10501

FEDERAL RESERVE BANK
OF
KANSAS CITY



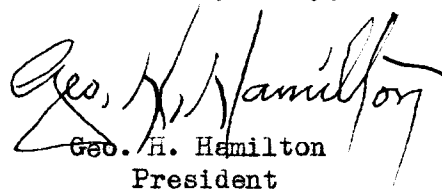
March 26, 1938

Mr. S. R. Carpenter, Assistant Secretary
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Mr. Carpenter:

Receipt is hereby acknowledged of
the 300 copies of the regulation of the Federal
Open Market Committee relating to open market opera-
tions of Federal reserve banks as amended at the
meeting of the Federal Open Market Committee on March 1,
1938.

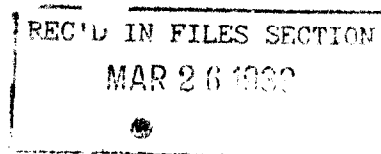
Yours very truly,


Geo. H. Hamilton
President

DECLASSIFIED
Authority E.O. 10501

FEDERAL RESERVE BANK
OF ATLANTA

OFFICE OF
PRESIDENT



March 24, 1938.

Mr. S. R. Carpenter, Assistant Secretary,
Board of Governors of the Federal Reserve System,
Washington, D. C.

Dear Mr. Carpenter:

I have your letter of March 21st advising that there were being forwarded to me, under separate cover, three hundred printed copies of the regulation of the Federal Open Market Committee relating to open market operations of Federal reserve banks, as amended at the meeting of the Federal Open Market Committee on March 1, 1938. These copies have been duly received, for which we thank you.

Very truly yours,

Oscar Newton
President.

File

DECLASSIFIED
Authority E.O. 10501

RECORDED IN FILES SECTION
MAR 23 1938

March 21, 1938.

Mr. R. A. Young, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Young:

There are being forwarded to you today, under separate cover, three hundred printed copies of the regulation of the Federal Open Market Committee relating to open market operations of Federal reserve banks as amended at the meeting of the Federal Open Market Committee on March 1, 1938.

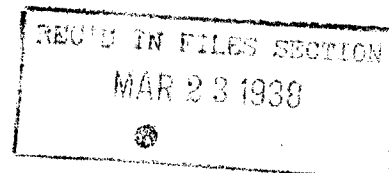
Very truly yours,

S. R. Carpenter,
Assistant Secretary.

rkt


FILE COPY

DECLASSIFIED
Authority E.O. 10501



March 21, 1938.

Mr. G. L. Harrison, President,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Harrison:

There are being forwarded to you today, under separate cover, three hundred printed copies of the regulation of the Federal Open Market Committee relating to open market operations of Federal reserve banks as amended at the meeting of the Federal Open Market Committee on March 1, 1938.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

SRC:mp

A handwritten signature in dark ink, appearing to be "S. R. Carpenter", written over the typed name.

FILE COPY

DECLASSIFIED
Authority E.O. 10501

REC'D IN FILES SECTION
MAR 23 1938

March 21, 1938.

Mr. J. S. Sinclair, President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.


Dear Mr. Sinclair:

There are being forwarded to you today,
under separate cover, three hundred printed copies
of the regulation of the Federal Open Market Commit-
tee relating to open market operations of Federal re-
serve banks as amended at the meeting of the Federal
Open Market Committee on March 1, 1938.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

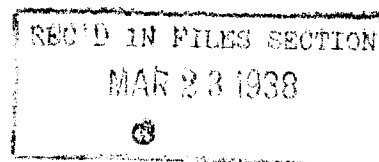
SBC:mo



FILE COPY

DECLASSIFIED
Authority E.O. 10501

March 21, 1938.




Mr. M. J. Fleming, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Fleming:

There are being forwarded to you today,
under separate cover, three hundred printed copies
of the regulation of the Federal Open Market Commit-
tee relating to open market operations of Federal
reserve banks as amended at the meeting of the Fed-
eral Open Market Committee on March 1, 1938.

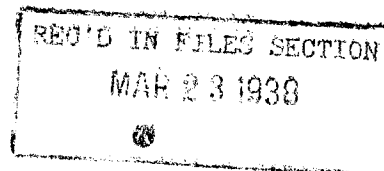
Very truly yours,

S. R. Carpenter,
Assistant Secretary.

SPC:mo


FILE COPY

DECLASSIFIED
Authority E.O. 10501



March 21, 1938.

Mr. Hugh Leach, President,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Leach:

There are being forwarded to you today,
under separate cover, three hundred printed copies
of the regulation of the Federal Open Market Com-
mittee relating to open market operations of Fed-
eral reserve banks as amended at the meeting of
the Federal Open Market Committee on March 1, 1938.

Very truly yours,

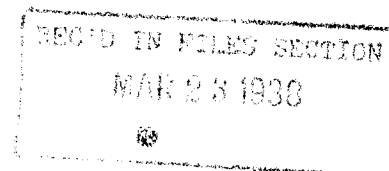
S. R. Carpenter,
Assistant Secretary.

SR:mo

A handwritten signature in dark ink, appearing to be "S. R. Carpenter", written over the typed name.

FILE COPY

DECLASSIFIED
Authority E.O. 10501



March 21, 1938.

Mr. Oscar Newton, President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Newton:

There are being forwarded to you today,
under separate cover, three hundred printed copies
of the regulation of the Federal Open Market Com-
mittee relating to open market operations of Fed-
eral reserve banks as amended at the meeting of
the Federal Open Market Committee on March 1, 1938.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

SRD:mo

A handwritten signature in dark ink, appearing to be "S. R. Carpenter".

3/24/38

FILE COPY

DECLASSIFIED
Authority E.O. 10501

REC'D IN FILES SECTION
MAR 23 1938

March 21, 1938.

Mr. G. J. Schaller, President,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Schaller:

There are being forwarded to you today,
under separate cover, three hundred printed copies
of the regulation of the Federal Open Market Com-
mittee relating to open market operations of Fed-
eral reserve banks as amended at the meeting of
the Federal Open Market Committee on March 1, 1938.

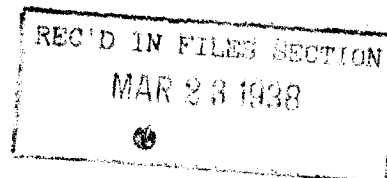
Very truly yours,

S. R. Carpenter,
Assistant Secretary.

 SRC:mo

FILE COPY

DECLASSIFIED
Authority E.O. 10501



March 21, 1938.

Mr. W. McC. Martin, President,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Martin:

There are being forwarded to you today,
under separate cover, three hundred printed copies
of the regulation of the Federal Open Market Com-
mittee relating to open market operations of Fed-
eral reserve banks as amended at the meeting of
the Federal Open Market Committee on March 1, 1938.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

 SRC:mo

FILE COPY

DECLASSIFIED
Authority E.O. 10501

REC'D IN FILES SECTION
MAR 23 1938

March 21, 1938.

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

Dear Mr. Peyton:

There are being forwarded to you today,
under separate cover, three hundred printed copies
of the regulation of the Federal Open Market Com-
mittee relating to open market operations of Fed-
eral reserve banks as amended at the meeting of
the Federal Open Market Committee on March 1, 1938.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

 SRC:mo

FILE COPY

DECLASSIFIED
Authority E.O. 10501

REC'D IN FILES SECTION
MAR 23 1938

March 21, 1938.

Mr. G. H. Hamilton, President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. Hamilton:

There are being forwarded to you today,
under separate cover, three hundred printed copies
of the regulation of the Federal Open Market Com-
mittee relating to open market operations of Fed-
eral reserve banks as amended at the meeting of
the Federal Open Market Committee on March 1, 1938.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

SRC:mo

FILE COPY

DECLASSIFIED
Authority E.O. 10501

REC'D IN FILES SECTION
MAR 23 1938

March 21, 1938.

Mr. B. A. McKinney, President,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. McKinney:

There are being forwarded to you today,
under separate cover, three hundred printed copies
of the regulation of the Federal Open Market Com-
mittee relating to open market operations of Fed-
eral reserve banks as amended at the meeting of
the Federal Open Market Committee on March 1, 1938.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

 SRO:mo

FILE COPY

DECLASSIFIED
Authority E.O. 10501

REC'D IN FILES SECTION
MAR 23 1938

March 21, 1938.


Mr. W. A. Day, President,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Day:

There are being forwarded to you today,
under separate cover, three hundred printed copies
of the regulation of the Federal Open Market Com-
mittee relating to open market operations of Fed-
eral reserve banks as amended at the meeting of
the Federal Open Market Committee on March 1, 1938.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

 SRC:mo

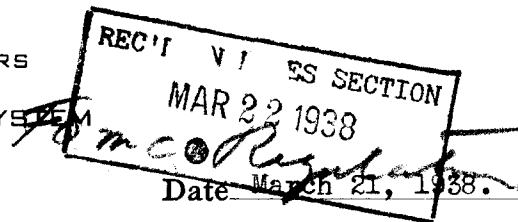
FILE COPY

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Authority E.O. 10501

74

Mr. Thompson
Form F. R. 131
Files

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM



Office Correspondence

To Mr. Kilgore

Subject: _____

From Mr. Thompson

RKD

The Presidents of all Federal reserve banks are being advised by letter today that three hundred printed copies of the revised regulation of the Federal Open Market Committee relating to open market operations of Federal reserve banks are being forwarded to each Federal reserve bank today under separate cover. It will be appreciated if you will see that these copies go forward today.

of 4/21/38
RKD files
OK

*Amendments approved at meeting of
F.O.M.C. on March 1, 1938*

FEDERAL OPEN MARKET COMMITTEE

REC'D IN FILES SECTION

MAR - 9 1938

REGULATION RELATING TO
OPEN MARKET OPERATIONS OF
FEDERAL RESERVE BANKS

ADOPTED MARCH 19, 1936

DECLASSIFIED
Authority E.O. 10501

Filed 1/18

REGULATION

FEDERAL OPEN MARKET COMMITTEE

Adopted March 19, 1936

OPEN MARKET OPERATIONS

SECTION 1

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

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

SECTION 2. DEFINITIONS

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

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

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

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

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

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Authority E.O. 10501

SECTION 3. GOVERNING PRINCIPLES

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

SECTION 4. FEDERAL OPEN MARKET COMMITTEE

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

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

SECTION 5. EXECUTIVE COMMITTEE

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

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

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

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

SECTION 6. CONDUCT OF OPEN MARKET OPERATIONS

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

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

SECTION 7. PURCHASES AND SALES OF GOVERNMENT SECURITIES

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

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

SECTION 8. OTHER OPEN MARKET OPERATIONS

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

- ~~(1) All such transactions shall be reported daily to the Secretary of the Committee on the day they take place.~~
- (2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased and the rates of discount shall be established in accordance with the provisions of sec-

for its own accounts or for the account of any other Federal Reserve bank,

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Authority E.O. 10501

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

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

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

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Authority E.O. 10501

DECLASSIFIED
Authority E.O. 10501

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

SECTION
FEB 19 1938

Office Correspondence

Date February 25, 1938

To Mr. Morrill

Subject: Clarifying amendments to by-laws

From Mr. Dreibelbis, Assistant
General Counsel.

and regulation of Open Market Committee.

There follows certain clarifying amendments to the by-laws and regulation of the Open Market Committee which I have prepared in the light of suggestions by Mr. Carpenter, and suggestions made by the New York Bank sometime ago preceding the adoption of the resolution relating to the purchase and sale of foreign bills.

BY-LAWS

1. Amend section 1 of Article I to read as follows:

"Section 1. Organization. Prior to the first meeting of the Committee following March 1st each year, each member of the Committee representing the Federal Reserve banks (shall cause a record of his election and of the election of the alternate to serve in his absence to be forwarded to the Secretary of the Committee). If any question be raised as to the election or eligibility of such member or alternate, the Committee shall determine such question before permitting such member or alternate to participate in the meetings."

2. Amend section 5 of Article I by adding the following:

"and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting."

3. Amend section 2 of Article II by adding to the first sentence the following:

"and an Assistant Secretary of the Board of Governors designated by the Secretary shall be an Assistant Secretary of the Committee", and in

And by striking out the last sentence of such section and substituting therefor -

"The Assistant Secretary shall assist the Secretary and in his absence shall act as Secretary pro tem."

The absence of the Secretary shall act as Secretary pro tem.

om. Feb 28

Mr. Morrill - 2

4. Strike out the last two sentences of section 5 of Article II and substitute therefor the following:

"Such bank shall select a Manager and an Assistant Manager of the System Open Market Account who shall be satisfactory to the Committee and who shall serve at the pleasure of the Committee. The Manager shall attend all meetings of both the Committee and the Executive Committee. The Assistant Manager shall perform the duties of the Manager in the absence of the latter."

5. Amend section 2 of Article III by striking out the following words in the first sentence:

"furnish copies thereof to the members of the Executive Committee".

OPEN MARKET REGULATION

1. Amend the first paragraph of section 7 by inserting between the words "sell" and "Government" the following:

"for its own account or for the account of any other Federal Reserve bank".

2. Amend section 8 by striking out paragraph (1) thereof and substituting therefor the following:

"(1) Each Federal Reserve bank, as may be from time to time required by the Committee, shall report all such transactions to the Secretary of the Committee."

And by inserting between the words "purchased" and "except" in the last sentence of paragraph (2) the following:

"or sold for its own account".

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Authority E.O. 10501

Telegram
FEDERAL RESERVE BANK
OF SAN FRANCISCO

President

WM. A. DAY, DEPUTY GOVERNOR

April 8, 1936

RECEIVED
FEDERAL RESERVE BOARD
WASHINGTON

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

1936 APR 13 AM 9 02

Dear Sirs:

The three hundred copies of the
regulation relating to open market opera-
tions of Federal Reserve Banks, referred
to in your letter of April 3d, have been
received.

Very truly yours,

Wm A Day

President

DECLASSIFIED
Authority E.O. 10501

APR 8 1936

Mr. Hugh Leach, President,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Leach:

Receipt is acknowledged of your letter of April 6, 1936, inquiring as to the procedure to be followed in the disposition of the copies of the regulation of the Federal Open Market Committee relating to open market operations, which were forwarded to your bank by this office.

Copies of the regulations were sent to all Federal reserve banks with the thought that they would be used in filling requests received for the regulation from time to time. As the regulation is not a regulation of the Board as such, it is not felt that it is necessary to furnish copies to member banks except upon request.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

ARC/acw
Chm

FILE

COPY

DECLASSIFIED
Authority E.O. 10501

File

FEDERAL RESERVE BANK
OF
KANSAS CITY

April 7, 1936

Mr. S. R. Carpenter, Assistant Secretary,
Board of Governors of the Federal Reserve System
Washington, D. C.

Dear Mr. Carpenter:

This will acknowledge receipt of the 300 printed
copies of the regulation adopted by the Federal Open Market
Committee on March 19, 1936, relating to open market opera-
tions of Federal Reserve banks, which you advised in your
letter of April 3, were being forwarded under separate cover
on that date.

Yours very truly,

Geo. H. Hamilton
Geo. H. Hamilton
President

DECLASSIFIED
Authority E.O. 10501

File

FEDERAL RESERVE BANK
OF BOSTON

April 6, 1936

Mr. S. R. Carpenter, Assistant Secretary
Board of Governors of the Federal Reserve System
Washington, D. C.

Dear Mr. Carpenter:

This will acknowledge receipt of your
letter of April 3, 1936. We also received in today's
mail three hundred printed copies of the regulation
adopted by the Federal Open Market Committee on March
19, 1936, relating to open market operations of Federal
reserve banks.

Thanking you for your courtesy in sending
these to us, I am

Yours very truly,

R. A. Young
R. A. Young
President

J

DECLASSIFIED
Authority E.O. 10501

RECEIVED
FEDERAL RESERVE BOARD
WASHINGTON

FEDERAL RESERVE BANK
OF RICHMOND

1936 APR 7 AM 8 49

April 6, 1936.

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

Gentlemen: Attention of Mr. S.R. Carpenter,
Assistant Secretary.

We acknowledge receipt of 300 copies of the
resolution adopted by the Federal Open Market Committee
on March 19, 1936, relating to open market operations
of Federal reserve banks.

Please let us know what procedure you wish
us to follow in the disposition of these copies.

Very truly yours,



HL-CCP

HUGH LEACH,
President.

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Authority E.O. 10501

File

FEDERAL RESERVE BANK
OF ATLANTA

OFFICE OF
PRESIDENT

April 6, 1936.

RECEIVED
FEDERAL RESERVE BOARD
WASHINGTON

1936 APR 8 AM 8 58

Mr. S. R. Carpenter, Assistant Secretary,
Board of Governors of the Federal Reserve System,
Washington, D. C.

Dear Mr. Carpenter:

I have your letter of April 3rd advising that there had been forwarded to me 300 printed copies of the regulation adopted by the Federal Open Market Committee on March 19th relating to open market operations of Federal reserve banks.

The copies of the regulation arrived today and will receive the proper circulation.

Very truly yours,

Oscar Newton
President.

DECLASSIFIED
Authority E.O. 10501

File

FEDERAL RESERVE BANK
OF
ST. LOUIS

April 6, 1936.

Mr. S. R. Carpenter,
Assistant Secretary,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Mr. Carpenter:

This is to acknowledge receipt
of the 300 printed copies of the regulation
adopted by the Federal Open Market Committee
on March 19, 1936, relating to Open Market
Operations of Federal Reserve Banks, which
you mentioned as being forwarded in your
letter of April 3.

Yours very truly,

A. S. Mc. Martin

President.

DECLASSIFIED
Authority E.O. 10501

July 1936

**FEDERAL RESERVE BANK
OF NEW YORK**

RECEIVED
FEDERAL RESERVE BOARD
WASHINGTON

1936 APR 7 AM 8 46

April 4, 1936.

Dear Sirs:

In behalf of Mr. Harrison let me acknowledge receipt of your letter of April 3 and of the printed copies of the regulations relating to open market operations, which have been received to-day.

Very truly yours,



W. Randolph Burgess
Vice President

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

WRB.H

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Authority E.O. 10501

File

RECEIVED
FEDERAL RESERVE BOARD
WASHINGTON
1936 APR 6 AM 8 57

FEDERAL RESERVE BANK
OF
PHILADELPHIA

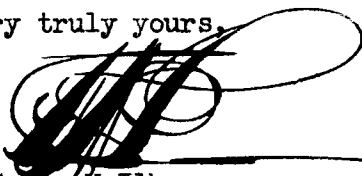
April 4, 1936.

Sirs:

We are in receipt of 300 printed copies of the regulation adopted by the Federal Open Market Committee on March 19, relating to open market operations of the Federal reserve banks.

Thanking you, I am,

Very truly yours,


C. A. McIlhenny,
Vice-President & Cashier.

BOARD OF GOVERNORS

of the Federal Reserve System,

Washington, D.C.

R

DECLASSIFIED
Authority E.O. 10501

April 3, 1936.

Mr. R. A. Young, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Young:

There are being forwarded to you today,
under separate cover, 500 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

SRC acw

see ans 4/6/36 FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 3, 1936.

Mr. G. L. Harrison, President,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Harrison:

There are being forwarded to you today,
under separate cover, 500 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

(Signature)
S. R. Carpenter,
Assistant Secretary.

(Signature) acw

See ans 4/4/36 FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 3, 1936.

Mr. J. S. Sinclair, President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Mr. Sinclair:

There are being forwarded to you today,
under separate cover, 500 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

SRC/acw

see ans 4/4/36 FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 3, 1936.

Mr. M. J. Fleming, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Fleming:

There are being forwarded to you today,
under separate cover, 500 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

SPC/ecw


FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 3, 1936.

Mr. Hugh Leach, President,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Leach:

There are being forwarded to you today,
under separate cover, 500 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.


SR/acw

Recd and 4/6/36

FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 5, 1936.

Mr. Oscar Newton, President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Newton:

There are being forwarded to you today,
under separate cover, 500 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

(Signature)
S. R. Carpenter,
Assistant Secretary.

(Signature) acw

See ans 4/6/36

FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 5, 1936.

Mr. G. J. Schaller, President,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Schaller:

There are being forwarded to you today,
under separate cover, 500 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

 acw

FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 3, 1936.

Mr. W. McC. Martin, President,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Martin:

There are being forwarded to you today,
under separate cover, 300 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

 SKW:scw

See ans 4/6/36

FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 3, 1936.

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

Dear Mr. Peyton:

There are being forwarded to you today,
under separate cover, 300 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

SPB:acw


FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 3, 1936.

Mr. G. H. Hamilton, President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. Hamilton:

There are being forwarded to you today,
under separate cover, 500 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

 SRS/acw

REC'D 4/7/36

FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 3, 1936.

Mr. B. A. McKinney, President,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. McKinney:

There are being forwarded to you today,
under separate cover, 500 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

(SIGNED) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

SRW:acw


FILE COPY

DECLASSIFIED
Authority E.O. 10501

April 3, 1936.

Mr. W. A. Day, President,
Federal Reserve Bank of San Francisco,
San Francisco, California.


Dear Mr. Day:

There are being forwarded to you today,
under separate cover, 300 printed copies of the
regulation adopted by the Federal Open Market Com-
mittee on March 19, 1936, relating to open market
operations of Federal reserve banks.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.


S. R. Carpenter

Rec and 4/8/36 FILE COPY

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Authority E.O. 10501

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 3, 1936.

To Mr. Kitzmiller

Subject: _____

From Mr. Carpenter

*File
Caw*

It will be appreciated if you will have forwarded to the president of each Federal reserve bank today 500 printed copies of the regulation adopted by the Federal Open Market Committee on March 19, 1936, relating to open market operations of Federal reserve banks.

[Signature]
acw

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Authority E.O. 10501

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 2, 1936.To Mr. Hoell

Subject: _____

From Mr. Carpenter

GPO 16-852

Regulation "M", Open Market Operations, became obsolete on March 1, 1936, and it is understood that no further copies of Regulation "M" will be sent out in response to requests for copies of all of the regulations of the Board. Regulation "M" is not superseded by the new open market regulation for the reason that that regulation is issued by the Federal Open Market Committee rather than by the Board. Therefore, the new regulation will not carry a letter as is the case with the regulations of the Board.

cc: Mr. Kitsmiller

SRC/acw

orig filed 252-M - FRBoard's files

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Authority E.O. 10501

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 23, 1936.

To Files

Subject: _____

From Mr. Carpenter



3/19/36

The attached regulation relating to Open Market operations of Federal reserve banks was approved at the meeting of the Federal Open Market Committee in Washington on March 19, 1936.

DECLASSIFIED
Authority E.O. 10501

C O P Y

March 21, 1936.

Mr. R. A. Young, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Young:

In accordance with an understanding reached at the meeting of the Federal Open Market Committee on March 19, I am addressing this letter to you as President of the Federal Reserve Bank of Boston and a similar letter to the President or First Vice President of each of the other Federal reserve banks.

There is inclosed a mimeographed copy of the regulation relating to open market transactions of the Federal reserve banks, prescribed by the Federal Open Market Committee on March 19, 1936. In due course this regulation will be printed and published.

There is also inclosed a confidential copy of the by-laws of the Federal Open Market Committee adopted on March 19, 1936. The Committee decided that there would be no objection to your reading this copy of the by-laws to the board of directors of your bank at its next meeting if you so desire, with the understanding that it is to be treated by them as confidential information.

Pursuant to the by-laws, the Committee selected the following officers:

Chairman
Vice Chairman

M. S. Eccles
George L. Harrison

DECLASSIFIED Authority E.O. 10501

-2-

General Counsel
 Assistant General Counsel
 Economist
 Associate Economist

Walter Wyatt
 J. P. Dreibelbis
 E. A. Goldenweiser
 John H. Williams

The by-laws provide that the Secretary of the Board of Governors of the Federal Reserve System shall be the Secretary of the Committee and that in his absence an Assistant Secretary of the Board shall serve as Secretary pro tem.

The Committee selected the members of the executive committee as follows:

M. S. Eccles, Chairman

Ronald Ransom

M. S. Symmsak

Members of the Board of Governors

George L. Harrison

M. J. Fleming

Representatives of the Federal reserve banks.

As the alternates for the members of the Board the Committee selected Messrs. Broderick, Morrison and McKee, to serve in the order stated, and as the alternates for the representatives of the Federal reserve banks the Committee selected Messrs. Hamilton and McKinney, to serve in the order stated.

The by-laws provide that the Secretary of the Federal Open Market Committee, or, in his absence, an Assistant Secretary of the Board of Governors, shall act as secretary of the executive committee, and that the General Counsel of the Federal Open Market Committee, or, in his absence the Assistant General Counsel of the Committee, shall act as General Counsel of the executive committee.

The Committee selected the Federal Reserve Bank of New York to execute transactions for the Federal Open Market Committee.

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Authority E.O. 10501

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It will be appreciated if you will acknowledge receipt
of this letter.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill, Secretary,
Federal Open Market Committee.

Inlosures.

DECLASSIFIED
Authority E.O. 10501

*File
yd*

March 20, 1936.

Memorandum to Mr. Dreibelbis:

I will appreciate it if you will have prepared for me the necessary letter of transmittal and copies of the regulations of the Federal Open Market Committee for inclusion with such letter to the Director, Division of the Federal Register, National Archives.

Secretary.

CM yd

CW

per memo 3/18/36 (undated)

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Authority E.O. 10501

REGULATION

FEDERAL OPEN MARKET COMMITTEE

March 19, 1936

OPEN MARKET OPERATIONS

*Approved by
Committee*
MINUTES ON

MAR 19 1936

SECTION 1.

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

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

SECTION 2. DEFINITIONS

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

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

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Authority E.O. 10501

- 2 -

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

(d) Committee. - The term "Committee" shall mean the Federal Open Market Committee.

(e) Executive committee. - The term "Executive Committee" shall mean the executive committee of the Federal Open Market Committee.

SECTION 3. GOVERNING PRINCIPLES

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

SECTION 4. FEDERAL OPEN MARKET COMMITTEE

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

DECLASSIFIED
Authority E.O. 10501

- 3 -

such banks under section 14 of the Federal Reserve Act.

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

SECTION 5. EXECUTIVE COMMITTEE

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

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

1. To direct the execution of transactions in the open market in accordance with the open-market policies adopted by the Federal Open Market Committee;

2. To allocate the Government securities and other obligations held in the System Open Market Account among the several Federal Reserve banks in accordance with the principles determined by the Federal Open Market Committee;

3. To keep the members of the Federal Open Market Committee informed of all transactions executed under the direction of the Federal Open Market Committee

DECLASSIFIED Authority <u>E.O. 10501</u>
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- 4 -

and of all allocations and reallocations of Government securities and other obligations held in the System Open Market Account; and

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

SECTION 6. CONDUCT OF OPEN MARKET OPERATIONS

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

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

SECTION 7. PURCHASES AND SALES OF GOVERNMENT SECURITIES

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

The Committee reserves the right, in its discretion, to require the sale of any Government securities now held or hereafter purchased by

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Authority E.O. 10501

- 5 -

an individual Federal Reserve bank or to require that such securities be transferred into the System Open Market Account in accordance with such directions as the Committee may make.

SECTION 8. OTHER OPEN MARKET OPERATIONS

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

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

(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation E of the Board of Governors of the Federal Reserve System may be purchased and the rates of discount shall be established in accordance with the provisions of section 14(d) of the Federal Reserve Act:

Provided, further, That no obligations payable in foreign currency shall be purchased except in accordance with directions of the Committee.

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

(4) No Federal Reserve bank shall engage in the

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- 6 -

purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee;
Provided, That Federal Reserve banks may purchase and sell cable transfers through the Habana agency in accordance with the resolutions or regulations of the Board of Governors of the Federal Reserve System governing the operations of such agency.

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Authority

E.O. 18501

Form F. R. 181

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

RECORD IN FILES SECTION

MAR 19 1936

Date March 18, 1936.

Office Correspondence

To Federal Open Market Committee

From Mr. Cherry, Assistant Counsel

Subject: Filing of the Regulation Relating
to Open Market Operations with the
Division of the Federal Register.

G P O 16-852

Attached is a proposed letter to the Division of the Federal Register transmitting an original and three certified copies of the Committee's regulation relating to Open Market Operations.

Under the provisions of the Federal Register Act, approved July 26, 1935, each Federal agency which issues any document which is required or authorized to be published in the Federal Register is required to file the same with the Division of the Federal Register if the document prescribes a penalty or if it is a document or a class of documents determined by the President to "have general applicability and legal effect". When such a document is filed, the time of filing will be noted thereon, a copy will immediately be made available for public inspection at the office of the Director of the Division, and the document will be printed forthwith in the Federal Register. Until such document is filed with the Division it will not be valid against any person who has not had actual knowledge thereof.

Section II B of the regulations issued on March 2, 1936, by the Division of the Federal Register, and approved by the President, provides that all documents issued by a Federal agency which -

"in the opinion of the officer or officers signing the same, have general applicability and legal effect, shall be forwarded by the agency issuing the same to the Division. The Administrative Committee shall determine which of the documents so forwarded have general applicability and legal effect, and shall cause such documents to be filed in the office of the Director and published in the Federal Register."

Section III of such regulations provides that:

"No documents effective only against Federal agencies or persons in their capacity as officers, agents, or employees thereof shall be filed in the office of the Director or forwarded to the Division * * *."

The provisions of the law in question, however, are not entirely clear as to what person or which agency determines whether a particular document has general applicability and legal effect, although apparently such power is conferred upon the President. On the other

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Authority

E.O. 10501

Federal Open Market Committee -- 2

hand, section II B of the regulation quoted above indicates that the determination as to whether a particular document has general applicability and legal effect is vested in the "officer or officers signing the same," subject to a further determination by the Administrative Committee. On this basis, it appears that the Division of the Federal Register takes the position that the determination as to whether a document has general applicability and legal effect rests, as a practical matter, with the Government agency which issues the document.

It is also noted that section III of the regulations quoted above provides that no documents effective only against Federal agencies shall be filed. In this connection, it would seem that the regulation relating to Open Market Operations falls within this exception, since it is effective only against Federal agencies, namely Federal Reserve banks and the Committee itself. The law, however, does not make a specific exception as to such documents except in the case of Presidential Proclamations and Executive Orders. It could be argued, however, that, since the President approved the regulations issued by the Division of the Federal Register, such approval is tantamount to a determination by him that documents effective only against Federal agencies are not of general applicability and legal effect.

The attention of the Committee is invited to one other point. Pursuant to a request of the Division of the Federal Register, the Board of Governors in a letter dated February 25, 1936, furnished such Division with a list of statutory citations which confer authority upon the Board of Governors to issue, prescribe, or promulgate documents which are believed to be of general applicability and legal effect. This list did not include a citation to section 12A of the Federal Reserve Act under which the regulation relating to Open Market Operations is issued. In a memorandum addressed to the Board in connection with such letter, it was stated that section 12A of the Federal Reserve Act:

"is not listed in the attached letter because, while the question is debatable, it is not believed that regulations issued thereunder are of general applicability and legal effect. Moreover regulations on this subject may frequently be of a confidential character and accordingly it may not be desirable to publish them. In any event, it is understood that it will be possible to add to the list of provisions authorizing regulations of general applicability at a later date if this is desired."

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Authority E.O. 10501

Federal Open Market Committee -- 3

In view of the apparent uncertainty as to whether the regulation relating to Open Market Operations should be filed with the Division of the Federal Register and in view of the tremendous importance of the regulation, it would seem that any doubt in the matter should be resolved in favor of filing the regulation. Whether such regulation is actually published in the Federal Register is of no great importance. Moreover, if the regulation is filed in accordance with the law, its validity as against persons who have no actual knowledge thereof could not be questioned.

Respectfully,

Alfred K. Cherry,
Assistant Counsel.

Attachments

This memorandum and attached letter were considered by Mr. Breidert & Mr. Hyatt and it was decided by them not to file the Open Market Regulations with the Div. of the Federal Register.
AKC

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March 18, 1936

Division of the Federal Register,
National Archives Establishment,
Washington, D. C.

No letter sent

Gentlemen:

In compliance with the provisions of section 2 of the Federal Register Act, approved July 26, 1935, and the Regulations prescribed by the Administrative Committee of the Federal Register, and approved by the President, dated March 2, 1936, there are transmitted herewith, for filing, an original and three certified copies of a regulation relating to Open Market Operations which has been issued by the Federal Open Market Committee.

You will note that the inclosed regulation is effective only against Federal Reserve banks and the Committee, which are Federal instrumentalities, and, therefore, such regulation may fall within the class excepted by section III of the Regulations prescribed by the Administrative Committee of the Federal Register, dated March 2, 1936. However, the proposed regulation is of extreme importance and the Committee feels that it should be filed with your Division in accordance with the provisions of the Federal Register Act in order to avoid any possibility of embarrassment which might arise because of the failure to file such regulation.

Division of the Federal Register -- 2

The inclosed regulation has been issued pursuant to the authority conferred upon the Federal Open Market Committee by section 12A of the Federal Reserve Act, approved December 23, 1913, (38 Stat. 251) as amended. This statutory citation was not included in the letter of the Board of Governors of the Federal Reserve System dated February 25, 1936.

Very truly yours,

Secretary, Federal Open Market Committee.

Inclosures

AKC:MM

3-18-36

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Authority E.O. 10501

MAR 16 1936

Mr. George L. Harrison, President,
Federal Reserve Bank of New York.


Dear Mr. Harrison:

The members of the Board of Governors have discussed informally the tentative regulations and by-laws for the Federal Open Market Committee, copies of which were sent to you on March 11th. A number of suggestions as to modifications that might be made are incorporated in revised drafts of the regulations and by-laws, copies of which are submitted herewith, for your consideration. If there are any changes which you would like to have made in these drafts, the Board's staff will be glad, at your request, to prepare amendments incorporating your ideas as a basis for discussion by the Committee.

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.

Inclosures.


JPD/ehb
3/14/36

orig filed 333.33

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Authority E.O. 10501

MAR 16 1936

Mr. M. J. Fleming, President,
Federal Reserve Bank of Cleveland.

Dear Mr. Fleming:

The members of the Board of Governors have discussed informally the tentative regulations and by-laws for the Federal Open Market Committee, copies of which were sent to you on March 11th. A number of suggestions as to modifications that might be made are incorporated in revised drafts of the regulations and by-laws, copies of which are submitted herewith, for your consideration. If there are any changes which you would like to have made in these drafts, the Board's staff will be glad, at your request, to prepare amendments incorporating your ideas as a basis for discussion by the Committee.

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.

Inclosures.

JPD
JPD/ebb
3/14/36

orig filed 333.33

DECLASSIFIED
Authority E.O. 10501

MAR 16 1936

Mr. B. A. McKinney, President,
Federal Reserve Bank of Dallas.

Dear Mr. McKinney:

The members of the Board of Governors have discussed informally the tentative regulations and by-laws for the Federal Open Market Committee, copies of which were sent to you on March 11th. A number of suggestions as to modifications that might be made are incorporated in revised drafts of the regulations and by-laws, copies of which are submitted herewith, for your consideration. If there are any changes which you would like to have made in these drafts, the Board's staff will be glad, at your request, to prepare amendments incorporating your ideas as a basis for discussion by the Committee.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

JPD
JPD/ebb
3/14/36

orig filed 333.33

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Authority E.O. 10501

MAR 16 1936

Mr. G. B. Hamilton, President,
Federal Reserve Bank of Kansas City.

Dear Mr. Hamilton:

The members of the Board of Governors have discussed informally the tentative regulations and by-laws for the Federal Open Market Committee, copies of which were sent to you on March 11th. A number of suggestions as to modifications that might be made are incorporated in revised drafts of the regulations and by-laws, copies of which are submitted herewith, for your consideration. If there are any changes which you would like to have made in these drafts, the Board's staff will be glad, at your request, to prepare amendments incorporating your ideas as a basis for discussion by the Committee.

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.

Inclosures.

JPB/ebb
3/14/36

orig filed 333,33

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Authority E.O. 10501

W. C. Carpenter

L-437

March 16, 1936.

CONFIDENTIAL

Revised draft prepared by staff of Board of Governors after informal discussion with members of Board

FOMC Regulation

EXPLANATION

Deletions from prior draft stricken out - additions capitalized.

REGULATION

Capitalized

FEDERAL OPEN MARKET COMMITTEE

March , 1936

OPEN MARKET OPERATIONS

SECTION 1.

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

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

SECTION 2. DEFINITIONS

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

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Authority E.O. 10501

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

(c) System open market account. — The term "system open market account" applies to Government securities and other obligations held for the account of the Federal Reserve banks under the ~~central~~ DIRECTION of the ~~executive~~ eCommittee.

(d) Committee. — The term "Committee" shall mean the Federal Open Market Committee.

(e) Executive committee. — The term "~~e~~Executive ~~e~~Committee" shall mean the executive committee of the Federal Open Market Committee.

SECTION 3. GOVERNING PRINCIPLES

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

SECTION 4. FEDERAL OPEN MARKET COMMITTEE

(NOTE: IT IS SUGGESTED THAT PARAGRAPHS (a), (b), AND (c) OF THIS SECTION COULD VERY WELL BE OMITTED AS THEY ARE COVERED BY THE LAW AND THE PROPOSED BY-LAWS.)

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L-437

(a) Organization. - The Committee created by section 12A of the Federal Reserve Act, as amended by the Banking Act of 1935, consists of the members of the Board of Governors of the Federal Reserve System and of five representatives of the Federal Reserve banks elected annually.

An alternate to serve in the absence of each such representative shall be elected annually.

(b) Records. - The Secretary of the Committee shall keep minutes of all its meetings and shall keep a complete record of the action taken by the Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons assigned therefor. Such MINUTES AND records shall become and remain IN the ~~property~~ CUSTODY of the Board of Governors of the Federal Reserve System.

(c) Meetings. - Meetings of the Committee shall be held at Washington, D. C., at least four times each year upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the WRITTEN OR TELEGRAPHIC request of any three members of the Committee. DUE N-~~otices~~ of meetings called shall be ~~given~~ SENT to all members of the Committee by the Secretary.

(d) Functions. - It is the duty of the Committee to consider the needs of commerce and business, the general credit situation of the country, and ~~such~~ other matters having a bearing thereon as

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~~may come to its attention~~, and to consider, adopt, and transmit to the several Federal Reserve banks, regulations and directions with respect to the open-market operations of such banks under section 14 of the Federal Reserve Act.

~~(e) -- Open Market policy. -- The Committee will from time to time determine the open market policies of the System and will notify the several Federal Reserve banks of all decisions which require action on their part.~~

(f) (e) Participation in System Open Market Account. - Government securities and other obligations held for the System Open Market Account will be allocated among the several Federal Reserve banks and the Committee will adjust such allocations from time to time to meet the changing needs of respective Federal Reserve banks. -- Such allocation will be made with the view of equalizing as far as practicable the net earning position of each Federal Reserve bank subject to the maintenance of a suitable reserve position. THE COMMITTEE FROM TIME TO TIME SHALL DETERMINE THE PRINCIPLES WHICH SHALL GOVERN THE ALLOCATION AMONG THE SEVERAL FEDERAL RESERVE BANKS OF GOVERNMENT SECURITIES AND OTHER OBLIGATIONS HELD IN THE SYSTEM OPEN MARKET ACCOUNT, WITH A VIEW TO MEETING THE CHANGING NEEDS OF THE FEDERAL RESERVE BANKS.

SECTION 5. EXECUTIVE COMMITTEE

(a) Organization. - The Committee, at its first meeting after March 1 in each calendar year, shall select from its own members

Page 30

DECLASSIFIED
Authority E.O. 10501

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an executive committee consisting of five members.

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

1. To direct the execution of purchases and sales of Government securities and other obligations in the open market in accordance with the open-market policies adopted by the Federal Open Market Committee;

2. TO ALLOCATE THE GOVERNMENT SECURITIES AND OTHER OBLIGATIONS HELD IN THE SYSTEM OPEN MARKET ACCOUNT AMONG THE SEVERAL FEDERAL RESERVE BANKS IN ACCORDANCE WITH THE PRINCIPLES DETERMINED BY THE COMMITTEE.

-2-3. To keep the members of the Federal Open Market Committee informed of all transactions executed by the Committee and of all allocations and reallocations of Government securities and other obligations held for participating banks; and

-3-4. To perform such other functions and duties in connection with open-market operations as may be assigned to it from time to time by the Federal Open Market Committee; but the executive committee shall have no authority to determine policies or make decisions upon questions of policy.

SECTION 6. CONDUCT OF OPEN MARKET OPERATIONS

Each Federal Reserve bank shall engage in open-market operations under section 14 of the Federal Reserve Act only in

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<p>DECLASSIFIED</p> <p>Authority <u>E.O. 10501</u></p>
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- 6 -

L-437

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

~~Ordinarily, in the conduct of open-market operations for the System Open Market Account, the~~ purchase or sale of obligations FOR THE SYSTEM OPEN MARKET ACCOUNT SHALL BE EXECUTED ~~will be made~~ through the BY A Federal Reserve ~~B~~ bank SELECTED BY THE COMMITTEE of New York. ~~In the conduct of open-market operations~~ e Each Federal Reserve bank, when directed by the Committee, ~~will~~ SHALL make available to the Federal Reserve ~~B~~ bank SELECTED BY THE COMMITTEE of New York, such funds as may be necessary to conduct and effectuate such open-market operations and each Federal Reserve bank through the Federal Reserve ~~B~~ bank, SO SELECTED SHALL, of New York ~~will~~ be credited with its participation in the purchase of obligations or with the proceeds of any sale thereof.

SECTION 7. PURCHASES AND SALES OF GOVERNMENT SECURITIES

No Federal Reserve bank shall purchase or sell Government securities except in accordance with an open-market policy adopted by the Federal Open Market Committee and in effect at the time; and any Government securities now held by an individual Federal Reserve bank for its own account shall be delivered into the System Open Market Account.

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Authority E.O. 10501

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SECTION 8. OTHER OPEN MARKET OPERATIONS

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

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

(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased and the rates of interest or discount shall be in accordance with schedules approved or prescribed by the Board of Governors of the Federal Reserve System: Provided, further, That no obligations payable in foreign currency shall be purchased except in accordance with directions of the Committee.

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

(4) No Federal Reserve bank shall engage in the

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purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee;
Provided, That Federal Reserve banks may purchase and sell cable transfers through the Habana agency in accordance with the resolutions or regulations of the Board of Governors of the Federal Reserve System governing the operations of such agency.

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Form F. R. 131

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 12, 1936

To Board of Governors
(each member individually)
From Mr. Morrill

Subject: _____

C O P Y

L-435-3/12/36See file 333.33

For your consideration in connection with the drafts of regulations and by-laws for the Federal Open Market Committee which were submitted to you on March 11, you will find attached alternate tentative drafts of regulations and by-laws containing revisions dealing more specifically and in detail with certain matters which were merely outlined or referred to in the previous drafts. Copies of the attached drafts are not being sent to the representatives of the Federal reserve banks.

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(Original filed 333.33)

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March 12, 1936.

CONFIDENTIAL

Tentative draft prepared by staff of Board of Governors of the Federal Reserve System reflecting additional suggestions made by staff as basis for discussion.

EXPLANATION

Deletions from prior draft stricken out - additions capitalized.

REGULATION

FEDERAL OPEN MARKET COMMITTEE

March , 1936

OPEN MARKET OPERATIONS

SECTION 1.

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

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

SECTION 2. DEFINITIONS

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

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

(c) System open market account. - The term "system open market account" applies to Government securities and other obligations held for the account of the Federal Reserve banks under the *direction* control of the ~~executive~~ committee. OP

(d) Committee. - The term "Committee" shall mean the Federal Open Market Committee.

(e) Executive committee. - The term "executive committee" shall mean the executive committee of the Federal Open Market Committee.

SECTION 3. GOVERNING PRINCIPLES

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

SECTION 4. FEDERAL OPEN MARKET COMMITTEE

(a) Organization. - The Committee created by section 12A of the Federal Reserve Act, as amended by the Banking Act of 1935,

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L-435

consists of the members of the Board of Governors of the Federal Reserve System and of five representatives of the Federal Reserve banks elected annually.

An alternate to serve in the absence of each such representative shall be elected annually, BUT AN ALTERNATE SHALL BE ENTITLED TO ATTEND MEETINGS OF THE COMMITTEE ONLY IN THE ABSENCE OF THE REPRESENTATIVE FOR WHOM SUCH ALTERNATE IS ELECTED.

(b) Records. - The Secretary of the Committee shall keep minutes of all its meetings and shall keep a complete record of the action taken by the Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons assigned therefor. Such records shall ~~become and remain the property~~ ^{in the custody} of the Board of Governors of the Federal Reserve System.

(c) Meetings. - Meetings of the Committee shall be held at Washington, D. C., at least four times each year upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the request ^{written or telegraphic} of any three members of the Committee. ^{Due} Notices of meetings called shall ^{be sent} be given to all members of the Committee by the Secretary.

(d) Functions. - It is the duty of the Committee to consider the needs of commerce and business, the general credit situation of the country, and ~~such~~ other matters having a bearing thereon, ~~as may come to its attention~~, and to consider, adopt, and transmit to the several Federal Reserve banks, regulations and directions with respect to the open-market operations of such banks under section 14 of the Federal Reserve Act.

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in accordance with the open-market policies adopted by the Federal Open Market Committee;

2. To keep the members of the Federal Open Market Committee informed of all transactions executed by the Committee and of all allocations and reallocations of Government securities and other obligations held for participating banks; and

3. To perform such other functions and duties in connection with open-market operations as may be assigned to it from time to time by the Federal Open Market Committee; but the executive committee shall have no authority to determine policies or make decisions upon questions of policy.

SECTION 6. CONDUCT OF OPEN MARKET OPERATIONS

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

Ordinarily, in the conduct of open-market operations for the System Open Market Account, the purchase or sale of obligations will be made BY THE MANAGER OF THE SYSTEM OPEN MARKET ACCOUNT through the Federal Reserve Bank of New York. In the conduct of open-market operations each Federal Reserve bank, when directed by the Committee, will make available to the MANAGER OF THE SYSTEM OPEN MARKET ACCOUNT THROUGH THE Federal Reserve Bank of New York, such funds as may be necessary to conduct

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and effectuate such open-market operations and each Federal Reserve bank through the Federal Reserve Bank of New York will be credited with its participation in the purchase of obligations or with the proceeds of any sale thereof.

SECTION 7. PURCHASES AND SALES OF GOVERNMENT SECURITIES

No Federal Reserve bank shall purchase or sell Government securities except in accordance with an open-market policy adopted by the Federal Open Market Committee and in effect at the time; and any Government securities now held by an individual Federal Reserve bank for its own account shall be delivered into the System Open Market Account.

SECTION 8. OTHER OPEN MARKET OPERATIONS

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

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

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

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approved or prescribed by the Board of Governors of the Federal Reserve System: Provided, further, That no obligations payable in foreign currency shall be purchased except in accordance with directions of the Committee.

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

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

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FEDERAL RESERVE BANK OF CLEVELAND

Office of The President

March 12, 1936

Dear Mr. Morrill:

Thank you for your confidential letter of March 11 with which you enclose, at the request of Chairman Eccles, preliminary drafts of regulations and by-laws to be used as a basis for discussion at the forthcoming meeting of the Federal Open Market Committee. I have also received memorandum prepared by the Board's staff calling attention to some of the points in connection with the regulations and by-laws which will require special consideration.

Very truly yours,

(Signed) M. J. Fleming

M. J. Fleming,
President.

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

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C o p y

March 11, 1936

Mr. George L. Harrison, President,
Federal Reserve Bank of New York,
New York, New York.

CONFIDENTIAL

Dear Mr. Harrison:

In anticipation of the coming meeting of the Federal Open Market Committee the Board's staff, at the request of Chairman Eccles, has prepared preliminary drafts of regulations and by-laws to be used as a basis for discussion. The drafts are purely tentative and as yet have not been submitted to or passed upon by the Board. Consideration of each draft will no doubt suggest changes, substitutions or alternative provisions, and Mr. Eccles has suggested that copies be sent to each member of the Committee representing the Federal Reserve banks at the same time that they are furnished to the members of the Board. Accordingly, for your confidential study, copies of such drafts are inclosed.

In this connection, there is also inclosed a memorandum prepared by the Board's staff calling attention to some of the points in connection with the regulations and by-laws which will require special consideration.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

orig filed 333.33

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Authority E.O. 10501

Mr. M. J. Fleming, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

CONFIDENTIAL

Dear Mr. Fleming:

In anticipation of the coming meeting of the Federal Open Market Committee the Board's staff, at the request of Chairman Eccles, has prepared preliminary drafts of regulations and by-laws to be used as a basis for discussion. The drafts are purely tentative and as yet have not been submitted to or passed upon by the Board. Consideration of each draft will no doubt suggest changes, substitutions or alternative provisions, and Mr. Eccles has suggested that copies be sent to each member of the Committee representing the Federal Reserve banks at the same time that they are furnished to the members of the Board. Accordingly, for your confidential study, copies of such drafts are inclosed.

In this connection, there is also inclosed a memorandum prepared by the Board's staff calling attention to some of the points in connection with the regulations and by-laws which will require special consideration.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

*see memo 3/12/36
orig filed 333.33*

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Authority E.O. 10501

Mr. E. A. McKinney, President,
Federal Reserve Bank of Dallas,
Dallas, Texas.

CONFIDENTIAL

Dear Mr. McKinney:

In anticipation of the coming meeting of the Federal Open Market Committee the Board's staff, at the request of Chairman Eccles, has prepared preliminary drafts of regulations and by-laws to be used as a basis for discussion. The drafts are purely tentative and as yet have not been submitted to or passed upon by the Board. Consideration of each draft will no doubt suggest changes, substitutions or alternative provisions, and Mr. Eccles has suggested that copies be sent to each member of the Committee representing the Federal Reserve banks at the same time that they are furnished to the members of the Board. Accordingly, for your confidential study, copies of such drafts are inclosed.

In this connection, there is also inclosed a memorandum prepared by the Board's staff calling attention to some of the points in connection with the regulations and by-laws which will require special consideration.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

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Authority E.O. 10501

Mr. George H. Hamilton, President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

CONFIDENTIAL.

Dear Mr. Hamilton:

In anticipation of the coming meeting of the Federal Open Market Committee the Board's staff, at the request of Chairman Eccles, has prepared preliminary drafts of regulations and by-laws to be used as a basis for discussion. The drafts are purely tentative and as yet have not been submitted to or passed upon by the Board. Consideration of each draft will no doubt suggest changes, substitutions or alternative provisions, and Mr. Eccles has suggested that copies be sent to each member of the Committee representing the Federal Reserve banks at the same time that they are furnished to the members of the Board. Accordingly, for your confidential study, copies of such drafts are inclosed.

In this connection, there is also inclosed a memorandum prepared by the Board's staff calling attention to some of the points in connection with the regulations and by-laws which will require special consideration.

Very truly yours,

Chester Morrill,
Secretary.

inclosures.

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Form No. 13

Office Correspondence

FEDERAL RESERVE
BOARD

Date March 11, 1936

333.34

To The Board of Governors
(Individual copies to the six members)
From Mr. Merrill

Subject: _____

L-434-3/11/36

See file 333.33

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You will find attached hereto a tentative draft of a regulation and a tentative draft of by-laws for discussion by the Federal Open Market Committee at its first meeting, together with a copy of a memorandum regarding certain features of the regulation and by-laws. In accordance with the action of the Board, copies of this material are being transmitted today to Messrs. Harrison, Fleming, McKinney and Hamilton in order that they may have an opportunity to study them prior to the meeting of the Committee. If we should be advised of the election of a representative by the Chicago and St. Louis banks in time to do so we will also send him copies of this material. It is understood that the members of the Board will wish to discuss the proposed regulation and by-laws at some meeting prior to next Monday.

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3/11/36*

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CONFIDENTIAL

Tentative draft prepared by staff of Board of Governors
of the Federal Reserve System as basis for discussion
by Federal Open Market Committee but not yet considered
by members of the Board of Governors

Guarded

file date

MAR 11 1936

REGULATION

FEDERAL OPEN MARKET COMMITTEE

March , 1936

OPEN MARKET OPERATIONS

SECTION 1.

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

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

SECTION 2. DEFINITIONS

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

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

(c) System open market account. - The term "system open market account" applies to Government securities and other obligations held for the account of the Federal Reserve banks under the control of the executive committee.

(d) Committee. - The term "Committee" shall mean the Federal Open Market Committee.

(e) Executive committee. - The term "executive committee" shall mean the executive committee of the Federal Open Market Committee.

SECTION 3. GOVERNING PRINCIPLES

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

SECTION 4. FEDERAL OPEN MARKET COMMITTEE

(a) Organization. - The Committee created by section 12A of the Federal Reserve Act, as amended by the Banking Act of 1935,

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consists of the members of the Board of Governors of the Federal Reserve System and of five representatives of the Federal Reserve banks elected annually.

An alternate to serve in the absence of each such representative shall be elected annually.

(b) Records. - The Secretary of the Committee shall keep minutes of all its meetings and shall keep a complete record of the action taken by the Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons assigned therefor. Such records shall become and remain the property of the Board of Governors of the Federal Reserve System.

(c) Meetings. - Meetings of the Committee shall be held at Washington, D. C., at least four times each year upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee. Notices of meetings called shall be given to all members of the Committee by the Secretary.

(d) Functions. - It is the duty of the Committee to consider the needs of commerce and business, the general credit situation of the country, and such other matters having a bearing thereon as may come to its attention, and to consider, adopt, and transmit to the several Federal Reserve banks, regulations and directions with respect to the open-market operations of such banks under section 14 of the Federal Reserve Act.

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(e) Open-Market policy. - The Committee will from time to time determine the open-market policies of the System and will notify the several Federal Reserve banks of all decisions which require action on their part.

(f) Participation in System Open Market Account. - Government securities and other obligations held for the System Open Market Account will be allocated among the several Federal Reserve banks and the Committee will adjust such allocations from time to time to meet the changing needs of respective Federal Reserve banks. Such allocation will be made with the view of equalizing as far as practicable the net earning position of each Federal Reserve bank subject to the maintenance of a suitable reserve position.

SECTION 5. EXECUTIVE COMMITTEE

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

(b) Functions. - It shall be the duty of the executive committee:

1. To direct the execution of purchases and sales of Government securities and other obligations in the open market in accordance with the open-market policies adopted by the Federal Open Market Committee;

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2. To keep the members of the Federal Open Market Committee informed of all transactions executed by the Committee and of all allocations and reallocations of Government securities and other obligations held for participating banks; and

3. To perform such other functions and duties in connection with open-market operations as may be assigned to it from time to time by the Federal Open Market Committee; but the executive committee shall have no authority to determine policies or make decisions upon questions of policy.

SECTION 6. CONDUCT OF OPEN MARKET OPERATIONS

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

Ordinarily, in the conduct of open-market operations for the System Open Market Account, the purchase or sale of obligations will be made through the Federal Reserve Bank of New York. In the conduct of open-market operations each Federal Reserve bank, when directed by the Committee, will make available to the Federal Reserve Bank of New York, such funds as may be necessary to conduct

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and effectuate such open-market operations and each Federal Reserve bank through the Federal Reserve Bank of New York will be credited with its participation in the purchase of obligations or with the proceeds of any sale thereof.

SECTION 7. PURCHASES AND SALES OF GOVERNMENT SECURITIES

No Federal Reserve bank shall purchase or sell Government securities except in accordance with an open-market policy adopted by the Federal Open Market Committee and in effect at the time; and any Government securities now held by an individual Federal Reserve bank for its own account shall be delivered into the System Open Market Account.

SECTION 8. OTHER OPEN MARKET OPERATIONS

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

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

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

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approved or prescribed by the Board of Governors of the Federal Reserve System: Provided, further, That no obligations payable in foreign currency shall be purchased except in accordance with directions of the Committee.

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

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

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CONFIDENTIAL

Memorandum with respect to suggested alternative provisions in tentative drafts of regulations and by-laws of Federal Open Market Committee.

*file date*MAR 11 1936

REGULATIONS

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1. Section 4, paragraph (a) - The Committee may desire to make provision with respect to the question whether and under what conditions alternates may attend meetings.
2. Section 4, paragraph (f) - It would seem important for the Committee to consider the formulation of more definite policies with respect to allocation of obligations held in the System Account than is suggested in the tentative draft. It is also important to consider whether allocations should be made by the Executive Committee or by the full Committee.
3. Section 5, paragraph (a) - It will be necessary for the Committee to give consideration to composition of the Executive Committee.
4. Section 7 - In Regulation M of the Board of Governors of the Federal Reserve System dealing with open-market operations under the Banking Act of 1933 provision was made for the purchase of Government securities by individual Federal Reserve banks under certain conditions. This has been eliminated in the tentative draft and the Committee may desire to give consideration to this subject.
5. Section 8 - In the tentative draft, section 8 has been drawn with the idea that, insofar as type of investment is concerned,

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eligibility requirements as defined in Regulations B and E of the Board of Governors of the Federal Reserve System shall control but that the quantity to be purchased or sold or the policy with respect to such operations shall be governed by the regulation and direction of the Federal Open Market Committee. As the volume of such operations is at present not a factor in the credit situation section 8 leaves the matter of such operations for the present largely in the discretion of each Federal Reserve bank, but reserves for the Committee the right to control such operations as and when deemed necessary by the Committee.

BY-LAWS

Article 1, section 1. The Committee may desire to give consideration to additions to this section further clarifying the status, election, and seating of members to the Committee.

Article 1, section 2. The Committee may desire to make further provisions with respect to the question whether and under what conditions alternates may attend meetings.

Article 3, section 1. The Committee may desire to make further provision with respect to the composition of the Executive Committee.

The Committee may also desire to give consideration to the inclusion of provisions in the by-laws with respect to the confidential character of its deliberations.

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Tentative draft of regulation - Federal Open Market Committee as prepared in Counsel's office showing suggested changes by Messrs. Goldenweiser, Smead, Clayton and Bethea.

file date
MAR - 3 1936

EXPLANATION

Suggested changes of Dr. Goldenweiser as per his memorandum-2/28/36 underlined in red.

Suggested changes of Mr. Smead as per his memorandum-3/2/36 underlined in blue.

Suggested changes of Mr. Clayton as per his memorandum-3/2/36 underlined in lead pencil.

Suggested changes of Mr. Bethea underlined in pen.

REGULATION

FEDERAL OPEN MARKET COMMITTEE

March , 1936

OPEN MARKET OPERATIONS

SECTION 1.

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

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

SECTION 2. DEFINITIONS

(a) Government securities. - The term "Government securi-

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ties" shall include bonds, notes, certificates of indebtedness, Treasury bills, and other obligations of the United States, including obligations fully guaranteed as to principal and interest by the United States.

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

(c) System account. - The term "system account" applies to Government securities held for the account of the Federal Reserve banks under the control of the executive committee.

(d) Committee. - The term "Committee" shall mean the Federal Open Market Committee.

(e) Executive committee. - The term "executive committee" shall mean the executive committee of the Federal Open Market Committee.

SECTION 3. GOVERNING PRINCIPLES

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

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SECTION 4. FEDERAL OPEN MARKET COMMITTEE

(a) Organization. - The Committee created by section 12A of the Federal Reserve Act, as amended by the Banking Act of 1935, consists of the members of the Board of Governors of the Federal Reserve System and of five representatives of the Federal Reserve banks electd annually.

An alternate to serve in the absence of each such representative shall be is also electd annually, but an alternate shall be entitled to attend meetings of the Committee only in the absence of the representative for whom such alternate is elected.

The Chairman of the Board of Governors of the Federal Reserve System shall serve ex officio as Chairman of the Committee and in the absence of the Chairman at any meeting of the Committee the Committee shall elect as a Chairman pro tem, one of the members of the Board of Governors of the Federal Reserve System.

The Secretary of the Board of Governors of the Federal Reserve System shall be the Secretary of the Federal Open Market Committee, and in the absence of the Secretary at any meeting of the Committee an Assistant Secretary shall act.

The Director of the Division of Research and Statistics of the Board of Governors of the Federal Reserve System shall be the Economist of the Committee.

~~The Committee shall select a "Manager of the System Open~~

Omit but include in By-Laws.

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Market Account" who ~~may~~ shall attend meetings of both the Federal Open Market Committee and its Executive Committee and who shall handle open-market operations for the Executive Committee.

(b) Records. - The Secretary of the Committee shall keep minutes of all its meetings and shall keep a complete record of the action taken by the Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons assigned therefor. Such record shall become and remain the property of the Board of Governors of the Federal Reserve System.

(c) Meetings. - ~~The Committee shall meet in Washington, D. C. at least four times each year, and oftener if deemed necessary. Meetings shall be held upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee.~~ Meetings of the Committee shall be held at Washington, D. C. at least four times each year upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee. Notices of meetings called shall be given to all members of the Committee by the Secretary.

Note: Executive Committee should have authority to designate one or more Federal Reserve banks or one or more officers of Federal Reserve banks to execute purchases and sales of Government securities in its behalf.

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(d) Functions. - It is the duty of the Committee to consider the needs of commerce and business, the general credit situation of the country, and such other matters having a bearing thereon as may come to its attention having a bearing thereon, and to consider, adopt, and transmit to the several Federal Reserve banks, regulations relating to the open-market transactions of such bank and directions with respect to the open-market operations of such banks under section 14 of the Federal Reserve Act.

(e) Open-Market policy. - The Committee will from time to time determine the open-market policies of the system and will notify the several Federal Reserve banks of all decisions which require action on their part. ~~Any such policy shall be subject to reconsideration or change at any time after it has become effective and before it has been fully executed.~~

SECTION 5. EXECUTIVE COMMITTEE

(a) Organization. - The Committee, at ~~in~~ its first meeting after March 1 in each calendar year, shall select from its own members an executive committee consisting of three members of the Board of Governors of the Federal Reserve System and two representatives of the Federal Reserve banks.

The Chairman of the Committee shall be Chairman of the Executive Committee.

The Secretary of the Committee shall act as the Secretary

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Authority E.O. 10501

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of the Executive Committee and shall keep minutes of all its meetings and furnish copies thereof to the members of the Committee.

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

1. To direct the execution of ~~execute~~ purchases and sales of Government securities and other obligations in the open market in accordance with the open-market policies adopted by the Federal Open Market Committee;

2. To allocate among the several Federal Reserve banks the aggregate amount of Government securities and other obligations held for the system account and to adjust such allocations from time to time to meet the changing needs of respective Federal Reserve banks. Such allocation shall be made with the view of (a) enabling each Federal Reserve bank to maintain a suitable reserve position and (b) equalizing as far as practicable the net earning position of each ~~the~~ Federal Reserve bank;

3. To keep the members of the Federal Open Market Committee informed of all transactions executed by the Committee and of all allocations and reallocations of Government securities and other obligations held for participating banks; and

[] Mr. Clayton thinks allocation should be by Committee rather than by Executive Committee.

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4. To perform such other functions and duties in connection with open-market operations as may be assigned to it from time to time by the Federal Open Market Committee; but the executive committee shall have no authority to determine policies or make decisions upon questions of policy.

SECTION 6. CONDUCT OF OPEN MARKET OPERATIONS

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

Ordinarily, in the conduct of open-market operations for the System Account, the purchase or sale of obligations will be made by the Manager of the System Open Market Account ~~will be made~~ through the Federal Reserve Bank of New York. In the conduct of open-market operations each Federal Reserve bank, when directed by the Committee, will make available to the Manager of the System Open Market Account through the Federal Reserve Bank of New York, such funds as may be necessary to conduct and effectuate such open-market operations and each Federal Reserve bank through the Federal Reserve Bank of New York will be credited with its participation in the purchase of obligations or with the proceeds of any sale thereof.

See changes Sec. 4(a) Paragraph 6.

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SECTION 7. PURCHASES AND SALES OF GOVERNMENT SECURITIES

No Federal Reserve bank shall purchase or sell Government securities except in accordance with an open-market policy adopted by the Federal Open Market Committee and in effect at the time, except that:

(1) In an emergency, any Federal Reserve bank may purchase Government securities when necessary to afford relief in a situation involving specific banking institutions in its district; and

(2) After obtaining the consent of the ~~Board of Governors of the Federal System~~ Committee, any Federal Reserve bank may purchase or sell Government securities for other specific purposes, ~~for its own account.~~

All purchases and sales of Government securities by any Federal Reserve bank for its own account shall be reported ~~promptly~~ to the Secretary of the Federal Open Market Committee on the day they are consummated and to the Manager of the System Account; and the executive committee may make such compensatory purchases or sales for the System account and such reallocations of the obligations in the System Account as may be appropriate in the light of purchases and sales made for their own account by individual Federal Reserve banks.

The Committee reserves the right, in its discretion, to

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require that any Government securities now held or hereafter purchased by an individual Federal Reserve bank for its own account be sold or delivered into the System Account.

Any Federal Reserve bank may purchase United States temporary certificates of indebtedness for the accommodation of the Treasury of the United States in amounts requested by the Treasury and may sell participations therein; but such certificates shall not be held for more than 7 days without the approval of the Board of Governors of the Federal Reserve System.

SECTION 8. OTHER OPEN MARKET OPERATIONS

Each Federal Reserve bank may engage in open-market operations other than the purchase or sale of Government securities, subject to the following conditions:

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

(2) Purchases of acceptances and bills of exchange shall be in accordance with the provisions of Regulation B of the Board of Governors of the Federal Reserve System and the rates of interest or discount shall be in accordance with schedules approved or prescribed by the Board of Governors of the Federal Reserve System: Provided, however, That no

Omit because paragraph 3 of section 14 provides that purchases of United States Government obligations may be made only in the open market.

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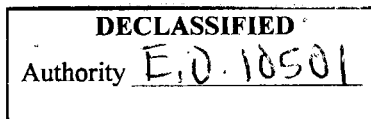
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obligations payable in foreign currency shall be purchased without the specific consent of the Board of Governors of the Federal Reserve System.

(3) All purchases by Federal Reserve banks of bills, notes, revenue bonds and warrants of States, counties, districts, political subdivisions or municipalities shall be in accordance with the provisions of Regulation E of the Board of Governors of the Federal Reserve System.

(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account without first obtaining the approval of the Board of Governors of the Federal Reserve System, except that Federal Reserve banks may purchase and sell cable transfers through the Habana agency in accordance with the resolutions or regulations of the Board of Governors of the Federal Reserve System governing the operations of such agency.

(5) Except as provided in Section _____ supra ~~with the approval of the Committee,~~ no Federal Reserve bank shall engage in any open-market transactions which are not of the customary character, which do not occur in the ordinary course of business, which are engaged in for the purpose of affecting general credit conditions or which may have a material effect upon general credit conditions; Provided, however, That any Federal Reserve



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bank may purchase obligations for the purpose of affording relief in a situation involving specific banking institutions in its district.

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CONFIDENTIAL

Tentative Draft
March 3, 1936

REGULATION
FEDERAL OPEN MARKET COMMITTEE

March . , 1936

OPEN MARKET OPERATIONS

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SECTION 1.

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

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

SECTION 2. DEFINITIONS

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

(b) Obligations. - The term "obligations" shall include all bankers' acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations, including Govern-

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ment securities, which Federal Reserve banks are authorized by law to purchase in the open market.

(c) System account. - The term "system account" applies to Government securities held for the account of the Federal Reserve banks under the control of the executive committee.

(d) Committee. - The term "Committee" shall mean the Federal Open Market Committee.

(e) Executive committee. - The term "executive committee" shall mean the executive committee of the Federal Open Market Committee.

SECTION 3. GOVERNING PRINCIPLES

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

SECTION 4. FEDERAL OPEN MARKET COMMITTEE

(a) Organization. - The Committee created by section 12A of the Federal Reserve Act, as amended by the Banking Act of 1935, consists of the members of the Board of Governors of the Federal Reserve System and of five representatives of the Federal Reserve banks elected annually.

An alternate to serve in the absence of each such represen-

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tative shall be elected annually, but an alternate shall be entitled to attend meetings of the Committee only in the absence of the representative for whom such alternate is elected.

(b) Records. - The Secretary of the Committee shall keep minutes of all its meetings and shall keep a complete record of the action taken by the Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons assigned therefor. Such records shall become and remain the property of the Board of Governors of the Federal Reserve System.

(c) Meetings. - Meetings of the Committee shall be held at Washington, D. C., at least four times each year upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee. Notices of meetings called shall be given to all members of the Committee by the Secretary.

(d) Functions. - It is the duty of the Committee to consider the needs of commerce and business, the general credit situation of the country, and such other matters having a bearing thereon as may come to its attention, and to consider, adopt, and transmit to the several Federal Reserve banks, regulations and directions with respect to the open-market operations of such banks under section 14 of the Federal Reserve Act.

(e) Open-Market policy. - The Committee will from time to

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time determine the open-market policies of the System and will notify the several Federal Reserve banks of all decisions which require action on their part.

SECTION 5. EXECUTIVE COMMITTEE

(a) Organization. - The Committee, at its first meeting after March 1 in each calendar year, shall select from its own members an executive committee consisting of three members of the Board of Governors of the Federal Reserve System and two representatives of the Federal Reserve banks.

The Chairman of the Committee shall be Chairman of the executive committee.

The Secretary of the Committee shall act as the secretary of the executive committee and shall keep minutes of all its meetings and furnish copies thereof to the members of the Committee.

(b) Functions. - It shall be the duty of the executive committee:

1. To direct the execution of purchases and sales of Government securities and other obligations in the open market in accordance with the open-market policies adopted by the Federal Open Market Committee;

2. To allocate among the several Federal Reserve banks the aggregate amount of Government securities and other obligations held for the system account and to adjust such

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allocations from time to time to meet the changing needs of respective Federal Reserve banks. Such allocation shall be made with the view of (a) enabling each Federal Reserve bank to maintain a suitable reserve position and (b) equalizing as far as practicable the net earning position of each Federal Reserve bank;

3. To keep the members of the Federal Open Market Committee informed of all transactions executed by the Committee and of all allocations and reallocations of Government securities and other obligations held for participating banks; and

4. To perform such other functions and duties in connection with open-market operations as may be assigned to it from time to time by the Federal Open Market Committee; but the executive committee shall have no authority to determine policies or make decisions upon questions of policy.

SECTION 6. CONDUCT OF OPEN MARKET OPERATIONS

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

Ordinarily, in the conduct of open-market operations for

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the System Account, the purchase or sale of obligations will be made by the Manager of the System Open Market Account through the Federal Reserve Bank of New York. In the conduct of open-market operations each Federal Reserve bank, when directed by the Committee, will make available to the Manager of the System Open Market Account through the Federal Reserve Bank of New York, such funds as may be necessary to conduct and effectuate such open-market operations and each Federal Reserve bank through the Federal Reserve Bank of New York will be credited with its participation in the purchase of obligations or with the proceeds of any sale thereof.

SECTION 7. PURCHASES AND SALES OF GOVERNMENT SECURITIES

No Federal Reserve bank shall purchase or sell Government securities except in accordance with an open-market policy adopted by the Federal Open Market Committee and in effect at the time, except that:

(1) In an emergency, any Federal Reserve bank may purchase Government securities when necessary to afford relief in a situation involving specific banking institutions in its district; and

(2) After obtaining the consent of the Committee, any Federal Reserve bank may purchase or sell Government securities for other specific purposes.

All purchases and sales of Government securities by any

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Federal Reserve bank for its own account shall be reported promptly to the Secretary of the Federal Open Market Committee on the day they are consummated and to the Manager of the System Account; and the executive committee may make such compensatory purchases or sales for the System account and such reallocations of the obligations in the System Account as may be appropriate in the light of purchases and sales made for their own account by individual Federal Reserve banks.

The Committee reserves the right, in its discretion, to require that any Government securities now held or hereafter purchased by an individual Federal Reserve bank for its own account be sold or delivered into the System Account.

SECTION 8. OTHER OPEN MARKET OPERATIONS

Each Federal Reserve bank may engage in open-market operations other than the purchase or sale of Government securities, subject to the following conditions:

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

(2) Purchases of acceptances and bills of exchange shall be in accordance with the provisions of Regulation B of the Board of Governors of the Federal Reserve System and the rates of interest or discount shall be in accordance with schedules approved or prescribed by the Board of Governors of the

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Federal Reserve System: Provided, however, That no obligations payable in foreign currency shall be purchased without the specific consent of the Board of Governors of the Federal Reserve System.

(3) All purchases by Federal Reserve banks of bills, notes, revenue bonds and warrants of States, counties, districts, political subdivisions or municipalities shall be in accordance with the provisions of Regulation E of the Board of Governors of the Federal Reserve System.

(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account without first obtaining the approval of the Board of Governors of the Federal Reserve System, except that Federal Reserve banks may purchase and sell cable transfers through the Habana agency in accordance with the resolutions or regulations of the Board of Governors of the Federal Reserve System governing the operations of such agency.

(5) Except with the approval of the Committee, no Federal Reserve bank shall engage in any open-market transactions which are not of the customary character, which do not occur in the ordinary course of business, which are engaged in for the purpose of affecting general credit conditions or which may have a material effect upon general credit conditions: Provided, however, That any Federal Reserve bank may purchase obligations for the purpose of affording relief in a situation involving specific banking institutions in its district.

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Memorandum for the Board
From Mr. Morrill

September 12, 1935.

The last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935, approved August 23, 1935, reads as follows:

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

This provision of law became effective on August 23, 1935, the date of its approval by the President, and placed upon the Board the responsibility beginning with that date of keeping certain new records.

As a basis for the discussion of the procedure to be followed in compliance with this provision of law it should be observed that it provides for three records, as follows:

(1) A complete record of the actions taken by the Board of Governors of the Federal Reserve System upon all questions of policy relating to open market operations and with respect to all other questions of policy determined by the Board. This record is required to be kept of all actions taken by the Board on questions of policy determined since the enactment of the Banking Act of 1935.

(2) A complete record of the actions taken by the Federal Open Market Committee as constituted until March 1, 1936, upon all questions of policy relating to open market operations. This record is required to be kept by the Board as to all actions taken by the committee after the enactment of the Banking Act of 1935, notwithstanding the fact that the members of the Board are not members of the committee.

(3) A complete record of the actions taken by the Federal Open Market Committee which is to come into existence on March 1, 1936, under the terms of the Banking Act of 1935, upon all questions of policy relating to open market operations. This record is required to be kept by the Board of all actions on questions of policy taken by the committee, notwithstanding the fact that the actions taken will be those of the Committee

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as such and not of the Board as such.

Inasmuch as the procedure to be followed by the Board with respect to all questions of policy determined by it, regardless of whether they relate to open market operations or not, is the one of immediate importance in point of time, it will be taken up first in this memorandum.

1. Board's record of its own actions.

It will be noted that the Board as such is required

(1) to keep a record of the actions taken by it upon all questions of policy relating to open market operations and on all other questions of policy determined by it in which shall be set forth (a) the votes taken in connection with the determination of such policies and (b) the reasons underlying the action in each instance;

(2) to publish in its annual report a full account of the actions so taken during the preceding year; and

(3) to include in such annual report a copy of the records required to be kept under the new provision of law.

The official minutes of the Board are prepared in sufficient detail to show, in connection with each entry of action taken with respect to any question of policy determined by the Board, the votes taken and the reasons given as underlying the action taken. However, the minutes of the Board are not confined to such questions. They include many details and a great deal of routine business. There are also minutes of executive committee meetings in addition to those of Board meetings. For these reasons, and in order to carry out the new requirements of law, it is contemplated that a separate record shall be established entitled "Record of Actions on Questions of Policy by Board of Governors of the Federal Reserve System required by the last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935". This will be in addition to the Board's minutes which will be kept in accordance with existing procedure.

In this new record would be incorporated entries of all actions taken by the Board on questions of policy determined by it, showing the votes taken and the reasons given as underlying the actions taken. These entries would not necessarily be as detailed or voluminous as the minutes but would contain the required information and be entirely in harmony with the minutes.

In this connection special consideration should be given to the procedure to be followed with respect to actions taken when a quorum of the Board is not actually present. These actions are taken by the executive committee or an interim committee pursuant to the provisions of the Board's bylaws. However, it is believed that such actions, when they constitute actions or questions of policy, should be incorporated currently

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in the new record, showing, as in the case of Board meetings, the members who took the action, without waiting until the date on which the minutes containing such action are approved at a meeting of the Board at which a quorum is present.

While it is believed that in order to comply with the new provision of law every action of the Board taken subsequent to August 23, 1935, making any change in existing policy as well as every action establishing any new policy should be included in this record, it is believed unnecessary to include entries of actions taken subsequent to the enactment of the Banking Act of 1935 which merely carry out or conform to policies adopted by the Board prior to the enactment of the Banking Act of 1935, without change in such policies. For example the grant of permission to exercise trust powers or the issuance of a temporary limited voting permit would not ordinarily be regarded as the determination of a question of policy. It may be proper also to omit from this record actions recorded in the minutes which merely permit exceptions in particular instances to general policies previously adopted, without the determination by the Board of any change therein or of any new policy. In addition, the issuance by the Board of rulings merely interpreting the law or the Board's regulations in accordance with the opinion of the Board's counsel would not be regarded as action on questions of policy, in the absence of special circumstances.

Specific reference in entries in the official minutes of the Board to the names of individuals, banks, corporations and other organizations would be eliminated in the new record (unless necessary for a proper understanding of the record) through appropriate substitutions for such references, such as the words "an individual" for the name of a person, the words "a State member bank" or "a national bank" for the name of a specific member bank, etc. Portions of the discussion referring to the internal administration of the Board's affairs and other details in the entries of the official minutes which are not considered to be necessary for a proper understanding of the action taken and the underlying reasons therefor would also be eliminated.

A proposed title page and fly leaf of the new record to be kept by the Board and samples of extracts from the minutes which it is proposed to place in the record are attached.

Under the present procedure, as soon as the official minutes of the Board have been drafted a copy is circulated among the members for their approval and initials. In order to facilitate the preparation of the new record it is contemplated that there would be included in the covering circulation sheet accompanying each copy of the minutes a list briefly describing the items to be incorporated in the separate record. A sample of such a circulation sheet is attached. It would be considered that the initials on this circulation slip would not only constitute approval of the draft of the minutes but also approval of the inclusion in the record of the items referred to in the list. It is assumed that the Board will wish also to have a copy of the record as thereafter prepared in accordance

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with this procedure circulated for approval and initials in the same manner as copies of the minutes are now circulated.

With respect to the record two forms might be established, the first of which would contain the entries in chronological order as they appear in the minutes. The other form might be one in which the entries would be classified and grouped according to subject matter. However, in view of the fact that the law requires that an account of all actions on questions of policy be included in the Board's annual report and that in such account the discussion is likely to be in narrative form, primarily according to subject matter, it would seem that the record in chronological order which could be kept up to date currently, together with an index which would classify and group the entries according to subject matter, would be sufficient without the second form of record above mentioned.

2. Board's Record of Actions Taken by Existing
Federal Open Market Committee.

As previously indicated, the Board is required to keep a record of the actions taken by the Federal Open Market Committee as now constituted until it is replaced by the Federal Open Market Committee created by section 12A of the Federal Reserve Act as amended effective March 1, 1936.

The legal requirements which must be met in this connection are the same as those set forth on pages 1 and 2 of this memorandum with respect to the Board's record of its own actions. It is believed that the meaning of the requirements that the Board shall keep the record and that it shall record therein certain matters is that the Board is expected to make the record and that mere acceptance and custodianship of a record prepared by the committee of meetings at which the Board was not present or represented would not suffice. The question of procedure therefore requires special consideration because the membership of the present Federal Open Market Committee does not include any member of the Board of Governors and it has been the practice for the committee to hold meetings and take action at such meetings when the Board is neither present nor represented in any way. As a rule the Board has been dependent upon the oral reports of the chairman of the committee after it has held its separate meetings and taken action thereat. The formal minutes of the open market committee have been received by the Board at a considerably later date. The requirements of the law now suggest the necessity of giving consideration before the next meeting of the Federal Open Market Committee to the question of the attendance of the Board and its secretarial staff. The law provides that meetings of this committee may, in the discretion of the Board, be attended by members of the Board.

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In this connection it may be pointed out that there have been only two meetings this year of the Federal Open Market Committee and that in order to comply with the law there should be two more meetings at Washington during the remaining months of this calendar year.

In view of the exceptional importance that might attach to actions taken by the Federal Open Market Committee the question which has been discussed heretofore should be determined definitely whether stenographic, verbatim reports should be made of such meetings. It is not considered that such a report is contemplated by the law, which requires a record only of the actions taken on questions of policy, of the votes taken in connection therewith, and of the underlying reasons for such actions. However, in some circumstances a stenographic report might be useful for reference purposes and as a basis for the record which the Board is required to establish. The possible effect of the making of a stenographic report upon the extent and freedom of discussion will of course be a factor in determining this question. In any event the stenographic report would not be treated as the "record" and would only be placed in the Board's files for purposes of reference in the discretion of the Board.

If such a report should be desired it will be necessary either to make arrangements with an outside expert stenographic reporter for services to be rendered from time to time as needed or to employ and carry an expert stenographic reporter regularly on the payroll of the Board. If an expert stenographic reporter were employed and carried regularly on the payroll of the Board it is likely that there would not be sufficient stenographic reporting work to keep him constantly in good training, and there would be difficulty in getting a competent person to accept employment in such circumstances. If an arrangement were made with an outside stenographic reporter consideration should be given to the desirability of requiring that his transcriptions be made at the offices of the Board and that his stenographic notes as well as transcriptions be left in the offices of the Board's Secretary staff. Such a person not only must be unquestionably competent but also one who can be relied upon not to give any information to any one regarding the meetings which he attends.

In recognition of the fact that at present the Governors of the Federal reserve banks constitute the membership of the Federal Open Market Committee and that, in order to insure the correctness of the record with special reference to the statement of the underlying reasons for actions taken, some plan should be adopted for avoiding delay in obtaining their approval of the record as well as that of the Board of Governors of the Federal Reserve System, it would seem desirable that consideration be given to the establishment of a procedure to be followed by the committee and the Board, before adjournment of the meetings of the Federal Open Market Committee, for determining the contents of the record. One suggestion that has been made is that a special sub-committee might be appointed for this purpose.

This record should be similar in form to the Board's record of its own actions and it is suggested that it be entitled "Record of Actions on questions of policy by the Federal Open Market Committee, required by the last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935".

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3. Board's Record of Actions Taken by Federal
Open Market Committee Established effective
March 1, 1936.

When the new Federal Open Market Committee created effective March 1, 1936, begins to hold meetings and take actions the Board will be required to keep a record of such actions and to meet the same legal requirements which must be met in connection with the actions of the present Federal Open Market Committee and the Board's own actions. These requirements are set forth on pages 1 and 2 of this memorandum with respect to the Board's record of its own actions.

The questions to be considered in connection with this committee are different only in that the members of the Board of Governors of the Federal Reserve System will also be members of the Federal Open Market Committee, but the duty under the law of making the record of the actions of the committee is cast upon the Board of Governors as such and not merely upon the Federal Open Market Committee. Aside from this, the experience that will have been gained prior to March 1 in complying with the requirements of the law will very likely dispose of virtually all questions of procedure with respect to the actions of this committee.

Board's Annual Report

One of the requirements of the law is that the Board shall include in its annual report to the Congress a full account of the actions taken "during the preceding year with respect to open market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept".

For this purpose it is assumed that the records kept in compliance with this requirement of the law should be attached to the annual report as appendices and that the account of the actions taken will be a narrative in orderly form which will be included in the text of the annual report and will be based upon and refer to the records included in the appendices. While it may be open to question whether the account in the next annual report, which will be submitted in 1936 for the calendar year 1935, is technically required to cover the entire year 1935 or only the period subsequent to August 23, 1935, it would not seem necessary to give serious consideration to this question as there would seem to be no undue difficulty in making the account cover the entire year and it is assumed that the Board will desire to do so.

Summary

Summarizing the foregoing matters the points to be decided by the Board cover the determination of the following matters:

1. The approval of the proposed procedure and forms for keeping the record of the Board's actions.

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2. The procedure and form for keeping the separate record of the actions of the Federal Open Market Committee as now constituted, including the question of attendance of the Board and its secretarial staff at meetings of the committee, and the matter of a stenographic verbatim report of all proceedings.

3. The procedure and form for keeping the separate record of the actions of the Federal Open Market Committee created effective March 1, 1936, including the question of attendance of the Board's secretarial staff at meetings of the committee, and the matter of a stenographic verbatim report of all proceedings.

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Tentative circulation slip to
accompany Board's minutes.

X

*Attached is a copy of the minutes of the meeting of the Executive Committee of the Board of Governors of the Federal Reserve System held on August 23, 1935.

It is proposed that extracts of the entries in this set of minutes commencing on the pages, and dealing with the subjects, referred to below will be placed in the separate record required to be kept under the provisions of Section 10 of the Federal Reserve Act.

Page 1. Service of Mr. Harrison as director of the B. I. S.

" 7. Letter re deposit of The Security Bank and Trust Company, Wharton, Texas.

If you approve these minutes and the foregoing list, please initial below:

Mr. Thomas _____

Mr. Hamlin _____

Mr. Miller _____

Mr. James _____

Mr. Szymczak _____

Mr. Clayton _____

X

*The minutes referred to are not attached as this is merely a draft of the proposed form.

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Tentative cover for
Board's record

X

Record of Actions on Questions of Policy

by the

Board of Governors of the Federal Reserve System

Required by the
Last paragraph of Section 10
of the
Federal Reserve Act as amended
by the
Banking Act of 1935

X

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X-9314-c

Tentative fly leaf
in Board's record

X

This record has been prepared pursuant to the last paragraph of Section 10 of the Federal Reserve Act, as amended by the Banking Act of 1935, which reads as follows:

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

X

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Sample entries in the Board's record.

Meeting of Executive Committee on Friday, August 23, 1935.

PRESENT: Mr. Eccles, Chairman
Mr. Thomas, Vice Chairman
Mr. Haulin
Mr. Miller

The Chairman reported that he had discussed with the Treasury Department the proposed service of Mr. Harrison, Governor of the Federal Reserve Bank of New York, as a director of the Bank for International Settlements, that he had pointed out that it was felt that there were important questions of policy as well as law upon which the Administration should be fully advised before reaching a conclusion on the matter, and that he had submitted to the Secretary of the Treasury copies of a memorandum on this subject and an opinion of the Board's counsel, which he had been assured would receive careful consideration. He stated that, in view of the fact that he expected to leave Washington tomorrow, August 24, for the West and would be absent during most of the month of September, he desired to recommend that if, during his absence, the question of Mr. Harrison's service as a director of the Bank for International Settlements be presented again, action on the matter be deferred. He suggested, however, that, if in the meantime the Board were advised that it had been found to be desirable from the standpoint of the Administration to have Mr. Harrison attend the October meeting of the board of directors of the Bank for International Settlements as an unofficial observer, the Board grant permission to Mr. Harrison to do so, with the understanding that he would report to the Board fully in writing in accordance with the requirements of the provisions of section 14(g) of the Federal Reserve Act.

The matter was discussed, and it was moved:

- (1) that, if the question of Mr. Harrison's service as a director of the Bank for International Settlements be presented to the Board during Mr. Eccles' absence, action on the matter be deferred and;
- (2) that if the Board be advised that it is considered by the Administration desirable for Mr. Harrison to attend the October meeting of the board of directors of the Bank for International Settlements in an unofficial capacity, the Board be prepared to grant permission to Mr. Harrison, as it did upon the occasion of his attendance at a meeting of the board of directors of the Bank for International Settlements in 1934, with the understanding that Mr. Harrison will submit a report to the Board in writing in accordance with the requirements of section 14(g) of the Federal Reserve Act.

The motion was put by the chair and was carried unanimously.

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X-9314-e

Meeting of Executive Committee on Monday, August 26, 1935.

PRESENT: Mr. Thomas, Vice Chairman
Mr. Hamlin
Mr. Miller
Mr. James

Letter to the Federal reserve agent of a Federal reserve bank, calling attention to the analysis of the report of examination of a State member bank as of June 1, 1935, in which reference was made to an "excess balance" being carried by the member bank with an unincorporated firm of private bankers and in connection with which the question was raised whether the provisions of Section 19 of the Federal Reserve Act, restricting deposits by a member bank with a non-member "State bank or trust company" to a sum not in excess of ten per cent of the member bank's capital and surplus is applicable to a deposit by a member bank with such a firm of private bankers. The letter stated that, in view of the terms of the limitation contained in Section 19, it appears that such limitation is not applicable to a deposit by a member bank with an unincorporated firm of private bankers; that the Board had heretofore considered circumstances having a bearing on this conclusion in connection with other provisions of the Federal Reserve Act, and had reached the conclusion (in a ruling published at page 693 of the Federal Reserve Bulletin for September, 1917) that the Federal reserve banks are not authorized to receive deposits from unincorporated private bankers under the provisions of Section 13 of the Federal Reserve Act and (in a ruling published at page 108 of the Federal Reserve Bulletin for February, 1935) that amounts due to and from private bankers may not be included by member banks in amounts due to and from "other banks" in computing the reserves required to be maintained by member banks under the provisions of Section 19 of the Federal Reserve Act.

The letter stated further that, however, the purpose of the provision referred to is obviously to restrict the amount of deposits of member banks in banking institutions which are not members of the Federal Reserve System and that, therefore, it is felt that the carrying of the balance in question is contrary to the spirit and purpose of the Federal Reserve Act and should be discouraged, even if it is not technically in violation of the letter of the law, and it is suggested that the agent advise the member bank accordingly.

Unanimously approved.

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Authority E.O. 10501

FEDERAL RESERVE BOARD

X-9294

WASHINGTON

August 24, 1935.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Reprinting and revision of
Board's regulations.

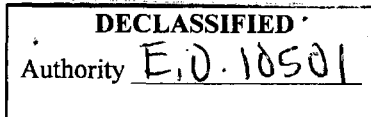
Dear Sir:

In view of the amendments to the law contained in the Banking Act of 1935, the Board is having revisions of the following regulations prepared:

- Regulation A - Discounts under Sections 13 and 13a.
(Will also include provisions re advances under Section 10(b) as amended.)
- Regulation D - Reserves of member banks.
- Regulation H - Membership of State banks and trust companies.
- Regulation I - Increase or decrease of capital stock of Federal Reserve banks and cancellation of old and issue of new stock certificates.
- Regulation L - Interlocking bank directorates and other relationships under the Clayton Act.
- Regulation P - Holding company affiliates - voting permits.
- Regulation Q - Payment of interest on deposits.
- Regulation R - Relationships with dealers in securities.

It will also be necessary to issue an entirely new regulation regarding loans to executive officers.

Drafts of some of the above regulations have already been sent to the Federal Reserve banks with requests that they give the Board the



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X-9294

benefit of their criticisms and suggestions and drafts of the others listed above will be sent to them as soon as they are ready.

In view of the fact that the Banking Act of 1935 changed the Board's name to "Board of Governors of the Federal Reserve System", the Board is also considering the advisability of reprinting all of its other regulations but knows of no special reason for amending or revising them at this time. However, the Board would appreciate advice from you at your earliest convenience as to whether you or the officers of your bank know of any important reason why any of the existing regulations other than those listed above should be amended or revised before they are reprinted. If you feel that any of them should be amended or revised, the Board would be glad to receive your suggestions as to the respects in which they should be changed.

Of course Regulation M will be superseded by a new regulation to be issued by the Federal Open Market Committee after March 1, 1936.

Very truly yours,



Chester Morrill,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS

DECLASSIFIED
Authority E.O. 10501

Form No. 131

Office CorrespondenceFEDERAL RESERVE
BOARDDate August 21, 1935To Mr. Wyatt

Subject: _____

From Mr. Carpenter

• • • 16-852

At the meeting of the Board today, the Governor referred to your memorandum of August 13, 1935, on the subject of sending tentative drafts of regulations to the Federal reserve banks and, in accordance with his suggestion, the Board authorized the transmission of tentative drafts of regulations as agreed upon by members of the staff to the Federal reserve banks for their suggestions and comments without the drafts being first submitted to the members of the Board.

It was understood, however, that the letters transmitting the tentative drafts of regulations in each case would contain a statement to the effect that the regulation attached had been prepared by the Board's staff, but had not been considered by the Federal Reserve Board and, in order to expedite the matter, was being sent to the Federal reserve banks for their consideration and comment at the same time that copies were being submitted to the members of the Board.

Orig. filed 252.

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August 15, 1935. *File on*

Messrs. Goldenweiser, Smead, Morrill,
 Paulger, Parry, Clayton, Thurston
 Mr. Wyatt, General Counsel.

Tentative drafts of revisions of
 Regulation M re Open Market Opera-
 tions.

There are transmitted herewith for your information, two tentative drafts of revisions of Regulation M which have been prepared by Mr. Benedict after some consultation with Dr. Goldenweiser and the undersigned. One is based upon the bill as passed by the House of Representatives and the other upon the bill as passed by the Senate.

In view of the uncertainty as to the form in which the open market section of the bill will finally be enacted, it would not seem worth while to have a staff conference on this subject until after the bill is enacted. However, it will be appreciated if you will familiarise yourself with these drafts and be prepared to discuss the subject at a staff conference as soon as the bill is enacted.

Mr. Benedict desires to invite especial attention to the following points:

(1) The statement of general principles in section III of the regulation based upon the bill as passed by the Senate (entitled "Regulation of the Federal Open Market Committee") incorporates the wording of the Senate bill. Dr. Goldenweiser has suggested that the wording be changed or elaborated by including provisions similar to those in the regulation based on the House bill. In view of the rejection by the Senate of the wording of the House bill, it is believed that it would be inappropriate, if not illegal, for the Board to write the provisions of the House bill into its regulation, assuming the Senate bill is the form

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Memo. to Messrs. Goldenweiser, Smead, Morrill,
Paulger, Parry, Clayton, Thurston -- 2

finally enacted.

(2) Neither regulation contains an express provision for absorption into the System account of Government securities now held in individual investment accounts of the various Federal Reserve banks. However, this could be accomplished, if desirable, under the provision that no banks shall hold Government securities except in accordance with the established open market policy (unless in emergencies or in the case of temporary certificates of indebtedness to accommodate the Treasury) and the provision permitting the administrative committee to allocate holdings to equalize "as far as practicable the net earning position" of the various banks.

(3) In the regulation based on the bill as passed by the House the present Regulation B of the Federal Reserve Board as to purchases of bills of exchange and acceptances has been incorporated as the final section. This was not feasible in the other regulation which is to be adopted by another body; i.e., the Federal Open Market Committee.

(4) In the regulation based on the bill as passed by the House the Open Market Advisory Committee has been made the administrative committee with administrative duties similar to those of the present executive committee. This is apparently contemplated by the House bill. In the other regulation the executive committee has been continued.

Very truly yours,



Walter Wyatt,
General Counsel.

Attachments.

FPB/emb

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August 15, 1935.

REGULATION OF THE FEDERAL OPEN MARKET COMMITTEE.

OPEN MARKET OPERATIONS

SECTION I

Stouley
✓ *Recorded*

Pursuant to the authority conferred upon it by section 12A of the Federal Reserve Act, as amended, the Federal Open Market Committee prescribes the following regulations governing the procedure to be followed in the conduct of open market operations of the Federal Reserve banks.

The specific mention in this regulation of any power or authority of the Federal Open Market Committee, of the Board of Governors of the Federal Reserve System or of the Federal Reserve banks, or the failure to mention specifically any such power or authority, shall not be construed as an interpretation of the law as to the existence, extent, or absence of such power or authority; and the Federal Open Market Committee expressly reserves the right to alter, amend, or repeal this regulation in whole or in part at any time.

SECTION II. DEFINITIONS

(a) Government securities. - The term "Government securities" shall include all direct obligations of the United States and all obligations guaranteed as to principal and interest by the United States.

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

(c) System account. - The term "system account" shall include all (Government securities and other) obligations purchased by the executive committee in pursuance of an open market policy adopted by the Federal Open Market Committee or held for the account of Federal Reserve banks.

(d) Executive committee. - The term "~~Executive committee~~" shall mean the executive committee of the Federal Open Market Committee.

SECTION III. GENERAL PRINCIPLES

The time, character, and volume of all purchases and sales in the open market by Federal Reserve banks shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general economic and credit situation of the country.

SECTION IV. FEDERAL OPEN MARKET COMMITTEE

(a) Organization. - The Federal Open Market Committee created by section 12A of the Federal Reserve Act, as amended by the Banking Act of 1935, consists of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal

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Reserve banks, selected annually as in said section 12A provided. The committee shall select its own chairman, vice chairman, and secretary.

(b) Meetings. - The committee shall meet in Washington, D. C., at least four times each year and oftener if deemed necessary. Meetings shall be held upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the committee.

(c) Records. - The Secretary of the committee shall keep a complete record of action taken by the committee at its meetings and shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying the action of the committee in each instance.

(d) Functions. - It shall be the duty of the committee to consider the economic and credit situation of the country, the changes in the supply of money (including currency and bank deposits), the reserve position of member banks, and such other matters as may be called to its attention by the Board of Governors of the Federal Reserve System or by any member of the committee, and in the light of the existing situation to determine and adopt the open market policy of the Federal Reserve System. Any such policy shall be subject to reconsideration at any time after it has become effective and before it has been fully executed; and a meeting of the Federal Open Market Committee shall be called for that purpose whenever requested by

See (d)

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the Chairman of the Board of Governors of the Federal Reserve System or by any three members of the committee.) The committee will notify each Federal Reserve bank of all decisions respecting any such policy.

(e) Participation by Federal Reserve banks. - All Federal Reserve banks when and as requested by the Federal Open Market Committee shall participate in open market operations in accordance with an open market policy adopted by the committee. If a Federal Reserve bank's reserve position makes it inadvisable for it to participate to the full extent of its regular allotment, it may make a recommendation to the executive committee and with its approval may diminish its participation or refrain altogether from participation.

SECTION V. EXECUTIVE COMMITTEE

(a) Organization. - The Federal Open Market Committee, at its first meeting in each calendar year, shall select from its own membership an executive committee consisting of five members and shall appoint the chairman thereof. The executive committee shall keep minutes of all its meetings and furnish copies thereof to the Federal Open Market Committee, ^{to} the Board of Governors of the Federal Reserve System and to each Federal Reserve bank.

(b) Functions. - It shall be the duty of the executive committee:

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(1) To execute purchases and sales of Government securities and other obligations in the open market in accordance with open market policies adopted by the Federal Open Market Committee.

(2) To allocate among all Federal Reserve banks the aggregate amount of Government securities and other obligations purchased in the open market and held for System account and to adjust such allocation from time to time to meet the changing needs of the respective Federal Reserve banks. Such allocations shall be made with the view primarily of (a) enabling each Federal Reserve bank to maintain a suitable reserve position, and (b) equalizing as far as practicable the net earning position of the Federal Reserve banks.

(3) To keep the Board of Governors of the Federal Reserve System, the Federal Open Market Committee and each Federal Reserve bank ^{currently} informed of all transactions executed by the executive committee and of all allocations and reallocations of Government securities and other obligations held for System account and

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

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SECTION VI. PURCHASES AND SALES OF GOVERNMENT SECURITIES

No Federal Reserve bank shall purchase, hold or sell Government securities except in accordance with an open market policy adopted by the Federal Open Market Committee and in effect at the time, except that:

(1) In an emergency, any Federal Reserve bank may purchase and hold Government securities when necessary to afford relief in a situation involving specific banking institutions in its district; and

(2) Any Federal Reserve bank may purchase for its own account or independently of the System account, in the open market, United States temporary certificates of indebtedness for the accommodation of the Treasury of the United States in amounts requested by the Treasury and may sell participations therein; but such certificates shall not be held for more than 7 days without the approval of the Executive Committee.

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VI
of reg.

See VIII
(b)

SECTION VII. OTHER OPEN MARKET OPERATIONS

Any Federal Reserve bank may engage in open market operations other than the purchase or sale of Government securities in accordance with this regulation, subject to the following conditions:

(1) All such transactions shall be reported daily to the Federal Open Market Committee and the Board of Governors of the Federal Reserve System.

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(2) All purchases of acceptances and bills of exchange shall be in accordance with the provisions of Regulation B of the Board of Governors of the Federal Reserve System and the rates of interest or discount shall be in accordance with schedules approved by the Board of Governors of the Federal Reserve System: Provided, however, That no obligations payable in foreign currency shall be purchased without the consent of the Board of Governors of the Federal Reserve System.

(3) All purchases by Federal Reserve banks of bills, notes, revenue bonds and warrants of States, counties, districts, political subdivisions or municipalities shall be in accordance with the provisions of Regulation E of the Board of Governors of the Federal Reserve System.

(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers without first obtaining the approval of the Board of Governors of the Federal Reserve System, except through the Habana agency in accordance with the resolutions or regulations of the Board of Governors of the Federal Reserve System governing the operations of such agency.

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SECTION VIII. PURCHASES NOT FOR SYSTEM ACCOUNT.

(a) All purchases of Government securities and other obligations by any Federal Reserve bank for its own account or independently of the System account shall be reported promptly to the Federal Reserve Board and to the Chairman of the committee. The committee may make such compensatory purchases or sales for the System account and such reallocations as may be appropriate in the light of purchases, holdings or sales by individual Federal Reserve banks for their own account or independently of the System account.

(b) No Federal Reserve bank shall engage in any open-market transactions which are not of the customary character, which do not occur in the ordinary course of business, which are engaged in for the purpose of affecting general economic or credit conditions or which have a material effect upon general economic or credit conditions: Provided, however, That in an emergency any Federal Reserve bank may purchase Government securities and other obligations when necessary to afford relief in a situation involving specific banking institutions in its district.

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L-112

August 15, 1935.

REGULATION , EFFECTIVE , 1935.
(Superseding Regulation B, Series of 1930, and Regulation M, Series of 1933)

OPEN MARKET OPERATIONS

SECTION I

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Vardeo

Pursuant to the authority conferred upon it by section 12A of the Federal Reserve Act, as amended, and by other provisions of the Federal Reserve Act, the Federal Reserve Board prescribes the following regulations governing open market operations of the Federal Reserve banks and the procedure to be followed in carrying out open market policies of the Federal Reserve System.

The specific mention in this regulation of any power or authority of the Federal Reserve Board or of the Federal Reserve banks, or the failure to mention specifically any such power or authority, shall not be construed as an interpretation of the law as to the existence, extent or absence of such power or authority; and the Federal Reserve Board expressly reserves the right to alter, amend, or repeal this regulation in whole or in part at any time.

SECTION II. DEFINITIONS

(a) Government securities. - The term "Government securities" shall include all direct obligations of the United States

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and all obligations guaranteed as to principal and interest by the United States.

(b) Obligations. - The term "obligations" shall include all bankers' acceptances, bills of exchange, ~~cash~~ transfers, bonds, notes, warrants, debentures, and other obligations, including Government securities, which Federal Reserve banks are authorized by law to purchase in the open market.

(c) System account. - The term "system account" shall include all Government securities and other obligations purchased pursuant to an open market policy adopted by the Federal Reserve Board or held in connection with such a policy for the account of Federal Reserve banks.

(d) Committee. - The term "Committee" shall mean the "Open Market Advisory Committee."

SECTION III. GENERAL PRINCIPLES

Open market operations shall be conducted in such manner as to promote conditions conducive to business stability and to mitigate by their influence unstabilizing fluctuations in the general level of production, trade, prices, and employment so far as may be possible within the scope of open market operations.

SECTION IV. OPEN MARKET ADVISORY COMMITTEE

(a) Organization. - The Open Market Advisory Committee

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created by section 12A of the Federal Reserve Act, as amended by the Banking Act of 1935, consists of five representatives of the Federal Reserve banks. The members of the committee and an alternate to serve in the absence of each of them shall be elected annually before the end of each calendar year, by the Governors of the twelve Federal Reserve banks at a meeting of such Governors held in Washington, D. C., pursuant to call of the Chairman of the committee or the Governor of the Federal Reserve Board. The first meeting shall be held in September, 1935. Eight of the twelve Governors shall constitute a quorum for such meeting. Separate lists of nominees for membership on the committee and their alternates, respectively, as nominated by one or more of the Governors of the Federal Reserve banks, shall be presented to the meeting for balloting thereon. Each Governor shall have one vote for each member and each alternate to be elected which may be cast in person or by proxy. The five persons on each list having the greatest number of votes shall be duly elected members of the committee or alternates, respectively. A vacancy in the office of any member of the committee shall be filled in the same manner as the office was originally filled. The terms of the members of the committee shall expire at the end of each calendar year and a person elected to fill a vacancy shall serve for the

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remainder of the term of his predecessor. The committee shall elect its own chairman, vice-chairman and secretary.

(b) Meetings. - The committee may act at a meeting; or without a meeting by unanimous written or telegraphic consent to any action proposed. Meetings of the committee shall be held from time to time upon the call of the chairman or upon the call of the Governor of the Federal Reserve Board. Meetings shall be called whenever requested by a majority of members of the committee or by a majority of the members of the Federal Reserve Board. The committee shall keep minutes of all its meetings and furnish copies thereof to the Federal Reserve Board and to each Federal Reserve bank.

(c) Functions. - The committee shall consult and advise with, and make recommendations in writing to, the Federal Reserve Board from time to time with regard to the open market policy of the Federal Reserve System, changes in the rates of interest or discount to be charged by the Federal Reserve banks or in the reserve balances required to be maintained by member banks. The committee shall also aid in the execution of open market policies adopted from time to time by the Federal Reserve Board and shall perform such other duties relating thereto as the Federal Reserve Board may herein, or otherwise, prescribe.

(d) Open market policy. - Any open market policy recommended

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by the committee shall be considered by the Federal Reserve Board. The Federal Reserve Board shall consult the committee before making any changes on its own initiative in open market policy, in the rates of interest or discount to be charged by the Federal Reserve banks, or in the reserve balances required to be maintained by member banks; and a meeting of the committee shall be called for consultation thereon with the Federal Reserve Board whenever requested by the Federal Reserve Board. After consulting with and considering recommendations of the committee, the Federal Reserve Board from time to time, shall prescribe the open market policy of the Federal Reserve System.

Any open market policy recommended by the committee shall be effective only when and to the extent prescribed by the Board. Any open market policy shall be subject to reconsideration at any time after it has become effective and before it has been fully executed. The Federal Reserve Board will notify each Federal Reserve bank and the chairman of the committee of all decisions respecting any such policy.

(e) Prescribed duties. - It shall be the duty of the committee:

(1) To execute purchases and sales of Government securities and other obligations in the open market in accordance with open market policies adopted by the Federal Reserve Board;

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(2) To allocate, pursuant to written or telegraphic directions from the Federal Reserve Board, the aggregate amount of Government securities and other obligations held in the System account, among all Federal Reserve banks, and to adjust such allocation from time to time to meet the changing needs of the respective Federal Reserve banks. Such allocation shall be made with the view primarily of (a) enabling each Federal Reserve bank to maintain a suitable reserve position, and (b) equalizing as far as possible the net earning positions of the Federal Reserve banks;

(3) To keep the Federal Reserve Board and each Federal Reserve bank informed of all transactions in the open market for System account and of all allocations and reallocations of Government securities and other obligations held for System accounts; and

(4) To perform, from time to time, such other duties relating to open market policies as the Federal Reserve Board may prescribe.

SECTION V. COMPLIANCE BY FEDERAL RESERVE BANKS

As provided in section 12A of the Federal Reserve Act, as amended, all transactions of Federal Reserve banks under authority of section 14 of the Federal Reserve Act, as amended, shall be subject to the regulations, limitations and restrictions herein prescribed and such others as the Federal Reserve Board may from time to

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time prescribe and each Federal Reserve bank shall purchase, hold or sell Government securities, bankers' acceptances, bills of exchange, and other obligations of the kinds and maturities made eligible for purchase under the provisions of section 14 of the Federal Reserve Act, as amended, to such extent and in such manner as may be required by the Federal Reserve Board in order to effectuate the open market policies adopted by the Board and each Federal Reserve bank shall cooperate fully, in every way, in making such policies effective.

SECTION VI. PURCHASES AND SALES OF GOVERNMENT SECURITIES

(a) No Federal Reserve bank shall purchase or sell Government securities except through the committee or the System account, and except as elsewhere in this regulation permitted.

(b) Each Federal Reserve bank shall be deemed to hold for System account any Government securities purchased for, or allocated to it by, the committee, pursuant to authority from the Board.

(c) No Federal Reserve bank shall purchase, hold or sell Government securities except in accordance with an open market policy adopted by the Federal Reserve Board and in effect at the time, except that:

(1) In an emergency any Federal Reserve bank may purchase Government securities when necessary to afford relief in a situation involving specific banking institutions; and

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(2) Any Federal Reserve bank may purchase for its own account or independently of the System account, United States temporary certificates of indebtedness for the accommodation of the Treasury of the United States in amounts requested by the Treasury and may buy and sell participations therein; but such certificates of participation shall not be held longer than 7 days without the approval of the Federal Reserve Board.

SECTION VII. OTHER OPEN MARKET OPERATIONS

Any Federal Reserve bank may engage in open market operations other than the purchase or sale of Government securities in accordance with this regulation, subject to the following conditions:

(a) All such transactions shall be reported daily to the Federal Reserve Board.

(b) All purchases of acceptances and bills of exchange shall be in accordance with the provisions of Section IX of this regulation, and the rates of interest or discount shall be in accordance with schedules approved or prescribed by the Federal Reserve Board; Provided, however, That no obligations payable in foreign currency shall be purchased without the consent of the Federal Reserve Board.

(c) All purchases by Federal Reserve banks of bills, notes, revenue bonds, and warrants of States, counties, districts, political subdivisions or municipalities shall be in accordance with the provisions of Regulation E.

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(d) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account or independently of the System account without first obtaining the approval of the Federal Reserve Board, except through its Habana agency in accordance with the resolutions or regulations of the Federal Reserve Board governing the operations of such agency.

SECTION VIII. PURCHASES NOT FOR SYSTEM ACCOUNT

(a) All purchases of Government securities and other obligations by any Federal Reserve bank for its own account or independently of the System account shall be reported promptly to the Federal Reserve Board and to the Chairman of the committee. The committee may make, or cause to be made by one or more Federal Reserve banks, such compensatory purchases or sales for the System account and such reallocations as may be appropriate in the light of purchases, holdings or sales by individual Federal Reserve banks for their own account or independently of the System account.

(b) No Federal Reserve bank shall engage in any open-market transactions which are not of the customary character, which do not occur in the ordinary course of business, which are engaged in for the purpose of affecting general economic or credit conditions or which have a material effect upon general economic or credit conditions: Provided, however, That in an emergency any Federal Reserve bank may purchase Government securities and other obligations when necessary to afford relief in a situation involving specific banking institutions in

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its district.

SECTION IX. CHARACTER OF BILLS AND ACCEPTANCES
ELIGIBLE FOR OPEN MARKET PURCHASES

Pursuant to section 14 of the Federal Reserve Act, the Federal Reserve Board, exercising its statutory right to regulate the character of bills of exchange and acceptances, which may be purchased by Federal Reserve banks, prescribes that, subject to other provisions of this regulation,

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

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

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

(3) It bears a satisfactory bank indorsement;

(b) A banker's acceptance growing out of a transaction involving the importation or exportation of goods may be purchased if it has a maturity not in excess of

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six months, exclusive of days of grace, provided that it conforms in other respects to the applicable requirements of Regulation A; and

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

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

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

DECLASSIFIED

Authority E.O. 10501

Form No. 181

Office Correspondence

FEDERAL RESERVE
BOARDDate August 13, 1935

To Governor Eccles C O P Y Subject: Sending tentative drafts of
new regulations to Federal Reserve
 From Mr. Wyatt, General Counsel. banks for criticism and comment.

16-852

During our conversation yesterday afternoon, you asked me to prepare a memorandum reminding you to take up with the Board the question of sending tentative drafts of the proposed new regulations to all Federal Reserve banks with a request that they give the Board their criticisms and suggestions.

You stated that you would ask the Board to authorize the staff to send tentative drafts of such regulations to all Federal Reserve banks without waiting for the members of the Board to examine them, but with the understanding that they do not commit the Board in any way and that the Board will have ample opportunity to consider the regulations when the revised drafts are prepared after receiving the criticisms and suggestions of the Federal Reserve banks.

The enactment of the Banking Act of 1935 will make it necessary to revise the following existing regulations:

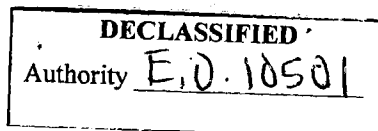
Regulation A, Discounts under Sections 13 and 13(a);
 Regulation D, Reserves of Member Banks;
 Regulation H, Membership of State Banks and Trust Companies;
 Regulation I, Increase or Decrease of Capital Stock of Federal Reserve Banks;
 Regulation L, Interlocking Bank Directorates;
 Regulation M, Open Market Operations;
 Regulation P, Holding Company Affiliates - Voting Permits;
 Regulation Q, Payment of Interest on Deposits;
 Regulation R, Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933.

In addition, it will be necessary to issue an entirely new regulation governing loans to executive officers.

If the bill as finally enacted abolishes collateral requirements for Federal Reserve notes and authorizes the Board to regulate the making of real estate loans by member banks, it will be necessary to issue new regulations on these two subjects.

A tentative draft of the proposed new regulation on loans to executive officers has already been mailed to the Federal Reserve banks; the revision of Regulation I is on your desk ready to go to the Federal Reserve banks; and drafts of the revised Regulations D, H, P, and Q are practically completed and can be sent to the Federal Reserve banks as soon as they are made to conform to the bill as finally enacted. We have drafts of regulations on rediscounts, real estate loans and open market operations; but considerable work will have to be done on them after the bill is enacted.

orig. filed 752.



Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date _____

To _____

Subject: _____

From _____

16-852

Governor Eccles - 2

Because of the postponement of the effective date of the corresponding sections of the Banking Act of 1935, it will not be necessary to revise Regulations L and R relating to interlocking bank directorates and relations with securities companies before December.

Respectfully,

(Signed) Walter Wyatt
Walter Wyatt,
General Counsel.

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THE OPEN MARKET PROVISION OF THE BANKING BILL (H.R. 7617)
AS REPORTED BY THE SENATE SUBCOMMITTEE

JUL - 2 1935

Carded

No question involved in the discussion of open market policies or other national credit policies is more important than the question of what body should be given the power of formulation and enforcement. For that reason, the public interest would be particularly jeopardized by the amendments proposed by the Subcommittee of the Senate Banking and Currency Committee to vest the determination of open market policies in a hybrid committee consisting, in effect, of seven members of the Federal Reserve Board and five Reserve bank governors.

It seems almost axiomatic that the body chosen to formulate national credit policies should have a national viewpoint and should owe undivided allegiance to the public welfare. Its judgment should not be warped by the viewpoint of any particular section of the country or by the special interests of any particular group. It should be an impartial, independent body with a keen and continuous sense of public duty. Every member of the body should be charged with the definite and inescapable responsibility of devoting himself to the uninterrupted study of the complete national economic picture so that the body will be constantly prepared to adopt necessary credit policies and to modify such policies if modification should become necessary in the public interest.

Heads of Reserve Banks Not Qualified to Serve on Body
Formulating National Credit Policies

Open market operations are one of the most important instruments of credit control, and whatever the qualifications of the heads of the

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Reserve banks to give advice on such matters or to propose policies for further discussion and consideration, they are particularly disqualified to serve on the body having final authority and responsibility for such policies.

The heads of the Federal Reserve banks, whether they be known as governors, presidents, or by any other name, are executives of large institutions with many matters requiring immediate decisions and many problems for immediate solution. Naturally, they are primarily concerned with the administration of their own institutions, the peculiar problems of their own districts and particular needs of their own member banks. They have neither the time nor the incentive to turn from such matters and give proper study and deliberation to the problems of the national economy or the effect of various forces which might be loosed by a particular credit policy. It is inevitable that their interest in credit policies should be essentially a "part-time interest"; and occasional departures from the daily routine of their executive duties in order to meet in Washington and formulate such policies cannot supply that continuity of attention, study, and deliberation which is necessary for sound judgment upon matters of such intricate nature and such far reaching importance to the entire nation.

Moreover, this same preoccupation with affairs of their own banks, their own districts, and their own particular groups of member banks, impresses upon the Reserve bank governors a point of view which makes it particularly unwise and dangerous to entrust to them the power to formulate credit policies for the entire nation. As

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indicated by the Governor of the Federal Reserve Bank of New York in his testimony before the Senate Banking and Currency Committee of a few years ago, it frequently is the duty of the Federal Reserve System to move in the opposite direction from its member banks. It must frequently move in the direction of easy credit conditions when its member banks are tightening credit conditions; and it must frequently move in the direction of tighter credit conditions when the tendency of its member banks is toward an easier credit condition. The heads of the Reserve banks on the other hand, are appointed by, and directly responsible to boards of directors, two-thirds of whose members are elected by the member banks. From the very nature of things, they are primarily "corporate managers", and their chief concern is the interests of their member bank "stockholders".

This over-susceptibility to the influences and special interests of their member banks was illustrated quite forcibly, even if probably unintentionally, by the introductory remarks of the Governor of the Federal Reserve Bank of Philadelphia in his recent speech before the Pennsylvania Bankers' Association, wherein he referred to his duty to "my stockholders" - meaning thereby the member banks of the Third Federal Reserve District. This may be all very well for the daily details of Reserve bank administration, but it simply is not reasonable to expect these same executives to have the objective attitude necessary for the adoption of credit policies contrary to those pursued by the member banks.

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Plan for Hybrid Organization is Unsound and Unworkable

Despite the obvious disqualifications of the heads of the Reserve banks to serve on the body having final authority over national credit policies, the creation of a new hybrid organization consisting partly of members of the Federal Reserve Board and partly of governors of Federal Reserve banks has been persistently advanced through a number of different channels and in a number of different forms. The details of such proposals vary, but the idea is always the same -- almost equal representation of the banking interests and the public interest, with the latter allowed a bare majority. Although the names are changed, the bill as reported by the Subcommittee would provide for a committee consisting of five governors of the Federal Reserve banks and seven members of the Federal Reserve Board.

The very mention of the idea indicates its true nature as a compromise between warring interests -- a compromise based not upon principle but purely upon expediency. It is a scheme to put the bankers in a position where they could control the decisions of the committee by obtaining the support of one or possibly two members of the Board. It is a plan to give the bankers actual control without legal control or responsibility.

Such a body composed of an almost equal number of representatives of these two conflicting forces could never be expected to operate harmoniously in the public interest. It would be utterly lacking in that undivided attention to the general welfare and that singleness of purpose which should be the principal characteristics of any body to which is entrusted

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the economic welfare of the nation. Being borne of a feeling of distrust between two antagonistic forces, it would most likely perpetuate and accentuate such distrust in all its proceedings. Instead of impartial, scientific consideration of the intricate economic problems which vitally affect the interests of the nation as a whole, its proceedings would be almost certain to degenerate into open clashes of interests or subtle manoeuvring by which the banker representatives would conspire to win over one or two members of the Board and control the decisions. If this were not the situation all of the time it would in all probability be the situation at the most critical times - at the times when there is a real conflict between the public interest and the selfish interests of the banks. Such an organization would be most impotent when it should be most vigorous. It would function worst when the public interest requires that it function best.

It is well to recall that there is nothing new about the proposal or its answer. When President Wilson insisted on the creation of the Federal Reserve Board, a public body to supervise and direct the affairs of the regional banking system contemplated by the Federal Reserve Act, the bankers sought representation on the Board. Since the banker-sponsored Aldrich plan had been rejected, they sought the next best thing for their purposes, and managed to arouse considerable support for their plan of banker representation on the Federal Reserve Board. It was President Wilson who disposed of the plan by showing that there was no more reason for banker representation on the Federal Reserve Board than for the

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railroads to select members of the Interstate Commerce Commission.

The present proposals for the creation of a hybrid body to formulate and enforce national economic and credit policies are but a revival of this same old idea. It is a revival - or it might better be said a continuation - of the eternal conflict between the general interests of all the people and the special interests of a few. The question is, will the bankers succeed after twenty-two years in having their scheme adopted; or will it again be understood and rejected as it should be?

The Federal Reserve Board is Best Qualified To
Formulate National Credit Policies

There is no need to look beyond the Federal Reserve Board to find the proper body to formulate open market and other national credit policies. It is a public body having back of it the experience and traditions of twenty-one years of continuous service to the American public. It is the body created by the Congress when it rejected the idea of a hybrid organization and determined to have a purely public body to coordinate the activities of the twelve Federal Reserve banks and see that they "pursue a banking policy which shall be uniform and harmonious for the country as a whole".

Under the original Federal Reserve Act and subsequent amendments, there are carefully worked out provisions to insure for the Board continuity of policy, tradition and responsibility, and to make it independent of political influence, banker influence, or any kind of special

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influence. Six appointive members with long terms of office serve on the Board with two members of the executive department of the Government. These appointive members have twelve-year terms of office and are appointed by the President with the advice and consent of the Senate, in the same manner as judges of the United States Supreme Court. Freedom from the predominance of any sectional interest is assured by the provision that no two members may come from any one Federal Reserve district. Independence from banking influence is safeguarded by the provisions that its members "shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank" and that they shall not "hold stock in any bank, banking institution or trust company".

The Federal Reserve Board is continually in session and continually devoting its attention to questions of the national public interest. It is in a position to initiate credit policies, to observe the effect of such policies as they proceed, to recognize at the earliest possible moment any undesirable or unanticipated results of such policies, and to intensify, relax, or change such policies as the need might arise. It is able to give undivided and painstaking attention to the one purpose of serving the welfare of the entire nation; and it would not deal with national credit policies in the haphazard, part-time fashion that would necessarily characterize a group composed in whole or in part of members primarily concerned with other functions.

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The economic effects of Reserve bank discount rates were recognized when the Federal Reserve System was established, and Congress gave the Federal Reserve Board the power to review and determine the discount rates of Federal Reserve banks, in order "to provide against the possibility that the local bank might be establishing a dangerously low rate of interest which the Reserve Board, familiar as it would be with credit conditions throughout the country, would deem best to raise". Open market operations at that time were not as well recognized as an instrument of credit policy as at present; and, either through oversight or through failure to realize their importance, the Board was given only general regulatory power over open market operations rather than the specific powers given over discount rates.

However, it is highly important for the public welfare that the viewpoint of the national economy should be paramount not only with respect to discount rates but also with respect to open market operations. It is essential that all national credit policies be based upon "conditions throughout the country"; and the Federal Reserve Board, with its experience in coordinating the activities of the Federal Reserve banks and exercising its general regulatory powers to keep the policies of the Federal Reserve banks in accord with sound public policy, is the logical body to be entrusted with the responsibility for formulating national credit policies.

With such an experienced public body already in existence, there is no need to create another body or to look elsewhere for an appropriate repository for the public trust involved in the authority and

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responsibility for the formulation of national credit policies. If the Federal Reserve Board is not sufficiently independent, the defect should be corrected. If it is not sufficiently competent, it should be made so. If it is lacking in any other qualification, the deficiency should be supplied; but it is at least something substantial to build upon, and it should not be discarded or shunted aside for an impractical, hybrid organization.

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THE OPEN-MARKET PROVISIONS OF THE BANKING ACT
OF 1935 ARE CONSISTENT WITH THE UNDER-
LYING PRINCIPLES OF THE ORIGINAL
FEDERAL RESERVE ACT.

MAY 11 1935

Carded

To concentrate in the Federal Reserve Board the ultimate authority over the open-market policy of the Federal Reserve System is consistent with the purpose and intent of the original Federal Reserve Act. The "chief purposes" of the Act were stated by Mr. Glass, Chairman of the House Banking and Currency Committee on page 11 of the Committee Report dated September 9, 1913, as follows:

"Essential Features of Reform.

The other plans before the committee or examined by it have likewise been found unsatisfactory - some for reasons analogous to those which made the Aldrich bill unacceptable, others because of defective detail, erroneous principle, or faulty construction. An effort was, however, made to ascertain the constituent elements of these measures and of the Aldrich bill, common to all, which should be recognized and provided for in any new plan because representing the fundamentals of legislation. It is believed that these are as follows:

1. Establishment of a more nearly uniform rate of discount throughout the United States, and thereby the furnishing of a certain kind of preventive against over-expansion of credit which should be similar in all parts of the country.

2. General economy of reserves in order that such reserves might be held ready for use in protecting the banks of any section of the country and for enabling them to go on meeting their obligations instead of suspending payments, as so often in the past.

3. Furnishing of an elastic currency by the abolition of the existing bond-secured note issue in whole or in part, and the substitution of a freely issued and adequately protected system of bank notes which should be available to all institutions which had the proper class of paper for presentation.

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4. Management and commercial use of the funds of the Government which are now isolated in the Treasury and sub-treasuries in large amounts.

5. General supervision of the banking business and furnishing of stringent and careful oversight.

6. Creation of market for commercial paper.

Other objects are sought, incidentally, in these plans, but they are not as basic as the chief purposes thus enumerated."

"No one of the regional banks acting alone could furnish "a certain kind of preventive against over expansion of credit which should be similar in all parts of the country". Therefore, the Federal Reserve Board was created and given the power to require the twelve regional banks to "pursue a banking policy which shall be uniform and harmonious for the country as a whole".

There is abundant evidence that the framers of the legislation fully recognized that some of the purposes stated above should be under the control of the regional banks and that others should be under the control of a central organization. Although it was believed that such routine matters as the decision upon the extension of credit to a particular borrower or the discounting of a particular loan should be left to the judgment of the regional bank, it was clearly understood that important matters of policy which would have a profound effect upon the economic life of the entire nation should be vested in a national organization with a national viewpoint.

It should be observed, however, that this principle of centralizing control of the broad national functions of the Federal Reserve System in a Government board was not in the minds of the framers of the

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Act during the early stages of its development but was first suggested by President Wilson in 1912 and later was accepted by the other men responsible for the enactment of the legislation. The circumstance under which President Wilson suggested the creation of the Federal Reserve Board "as a capstone" to the Federal Reserve System is related by Senator Glass, on pages 81 and 82, of his book "An Adventure in Constructive Finance".

"December 26, 1912, was a desperately cold day. The snow at Princeton was two feet deep. Dr. Willis, the committee expert, had accompanied the chairman, prepared to answer or discuss any purely technical question that might be projected. I had made a written divisional memorandum of the bill I desired to outline to Governor Wilson. The latter had a severe cold and was propped up on pillows in bed. He had cancelled every other engagement for the day, and at once it was suggested that he let us come another time when he might be in better trim; but he insisted on proceeding with the business, so intent was he on a speedy and sweeping currency reform. For two hours the situation was reviewed and the chairman's memorandum dissected. Toward the end, Mr. Wilson announced it as his judgment that we were 'far on the right track'; but offered quite a few suggestions, the most notable being one that resulted in the establishment of an altruistic Federal Reserve Board at Washington to supervise the proposed system. We had committed this function to the Comptroller of the Currency, already tsaristic head of the national banking system of the country. Mr. Wilson laughingly said he was for 'a plenty of centralization, but not for too much'. Therefore, he asked that a separate central board provision be drafted, to be used or not, as might subsequently be determined, 'as a capstone' to the system which had been outlined to him."

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In carrying out the plan originated by President Wilson for vesting important matters of national policy affecting the country as a whole in a Government board, the House Committee on Banking and Currency, in its report on the original Federal Reserve Act, made it clear that control over routine operations of banking was to be placed in the regional banks and that the determination of national policies was to be vested in the Federal Reserve Board. This is clearly shown by the following pages in the report on the original Federal Reserve Act submitted to the House of Representatives by Mr. Glass, on behalf of the Banking and Currency Committee, under date of September 9, 1913 (pp.16, 18,19 and 42):

" * * * In order that these banks may be effectively inspected, and in order that they may pursue a banking policy which shall be uniform and harmonious for the country as a whole, the committee proposes a general board of management intrusted with the power to overlook and direct the general functions of the banks referred to. To this it assigns the title of 'The Federal reserve board'.
* * * "

* * * * *

" * * * The only factor of centralization which has been provided in the committee's plan is found in the Federal reserve board, which is to be a strictly Government organization created for the purpose of inspecting existing banking institutions and of regulating relationships between Federal reserve banks and between them and the Government itself. Careful study of the elements of the problem has convinced the committee that every element of advantage found to exist in cooperative or central banks abroad can be realized by the degree of cooperation which will be secured through the reserve-bank plan recommended, while many dangers and possibilities of undue control of

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the resources of one section by another will be avoided. Local control of banking, local application of resources to necessities, combined with Federal supervision, and limited by Federal authority to compel the joint application of bank resources to the relief of dangerous or stringent conditions in any locality are the characteristic features of the plan as now put forward. * * * It is proposed that the Government shall retain a sufficient power over the reserve banks to enable it to exercise a directing authority when necessary to do so, but that it shall in no way attempt to carry on through its own mechanism the routine operations of banking which require detailed knowledge of local and individual credit and which determine the actual use of the funds of the community in any given instance. In other words, the reserve bank plan retains to the Government power over the exercise of the broader banking functions, while it leaves to individuals and privately owned institutions the actual direction of routine.

* * * * *

"In this section provision has been made for the creation of a general board of control acting on behalf of the National Government for the purpose of overseeing the reserve banks and of adjusting the banking transactions of one portion of the country, as well as the Government deposits therein, to those of other portions. * * * "

The power of carrying on the regular routine every-day business of the Federal reserve banks and of determining the local policies was entrusted to their respective boards of directors, but the Federal Reserve Board was created as "a general board of management" entrusted with the power to overlook and direct the general functions of the banks in order that the Board, on behalf of the Government, might retain power over the exercise of the "broader banking functions" affecting the country as a whole.

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The experience of the Federal Reserve System has demonstrated that the fixing of discount rates and the control of Open-market operations are correlative instruments of credit control and that the same principles which caused the framers of the Federal Reserve Act to grant final determination over discount rates to the Federal Reserve Board logically requires vesting of control of open-market operations in the same board. Section 14(d) of the original Federal Reserve Act vested final determination of the discount rate in the Federal Reserve Board by the following language:

"Every Federal reserve bank shall have power:

* * * * *

"(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;"

The following statement regarding this section is made at page 53 of the House Report on the original Act:

"* * * The power granted in subsection (d) to fix a rate of discount is an obvious incident to the existence of the reserve banks, but the power has been vested in the Federal reserve board to review this rate of discount when fixed by the local reserve bank at its discretion. This is intended to provide against the possibility that the local bank might be establishing a dangerously low rate of interest, which the reserve board, familiar as it would be with credit conditions throughout the country, would deem best to raise."

Although the language of section 14(d) making the power of the Federal Reserve banks to fix discount rates, "subject to review

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and determination of the Federal Reserve Board" seems clear enough, the question was raised in 1919 as to whether the power of the Board was not limited to reviewing and approving or disapproving rates of discount made by the Federal Reserve banks. At this time it was contended that the Board had no power to initiate rates or to direct specific changes and alterations thereof. This question was submitted to the Acting Attorney General by Senator Glass, at that time Secretary of the Treasury, and, in an opinion rendered on December 9, 1919, Acting Attorney General Alex C. King held that the Board had the power to determine rates of discount and to require such rates to be put into effect by the Reserve banks. 32 Opinions of the Attorney General, page 81. In his Opinion, the Acting Attorney General stated the following:

"It is quite evident that if the Federal Reserve Board is confined to the power to review and approve or disapprove rates of discount made by the Federal reserve banks, and is without power to itself direct specific changes, the words 'and determination' are wholly without significance. The very significance of the word 'determination' used in such a connection, carries with it the right to pass upon and to decide and fix, and thus determine what should be done. Coupling this with the power given the Federal Reserve Board to supervise the business of each Federal Reserve Bank, taking also into consideration the recommendations contemplated by the Advisory Council to the Federal Reserve Board in regard to discount rates, such power would be futile if such Federal Reserve Board could not, if agreeing to such recommendations direct them to be carried out. I think it is quite clear that the Federal Reserve Board is the ultimate authority in regard to rediscount rates to be charged by the several Federal reserve banks and may prescribe such rates.

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"The scheme of the entire act is to have Federal reserve banks in different parts of the country so that their operations may be accommodated to the business needs of each section and to vest final power in the Federal Reserve Board, so as to insure a conduct of business by each bank which will not be detrimental to the carrying out of the entire plan. The powers of the Federal Reserve Board are therefore to be exercised in regard to each reserve bank as the conditions surrounding said bank may dictate, keeping in view the general purpose and plan of the Federal Reserve Act. Bearing in mind such general purpose, I am of the opinion that the Federal Reserve Board has the right under the powers conferred by the Federal Reserve Act, to determine what rates of discount should be charged from time to time by a Federal reserve bank, and under their powers of review and supervision, to require such rates to be put into effect by such bank."

The statement of the Acting Attorney General that the scheme of the entire Federal Reserve Act was to vest final power in the Federal Reserve Board over the operations of the Reserve banks "so as to insure a conduct of business by each bank which will not be detrimental to the carrying out of the entire plan" is especially significant. Subsequent experience, however, has demonstrated that the Federal Reserve Board would be powerless to carry out a plan of credit control through the determination of the discount rate without having the correlative power to control the open-market operations of the Federal Reserve System.

A recognition of the close relationship between open-market operations and control of the discount rate appears in the following passage from page 52 of the Report of the House Banking and Currency Committee upon the original Federal Reserve Act:

"It will have been observed that the transactions authorized in section 14 (section 13 of present Federal

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Reserve Act) were entirely of a nature originating with member banks and involving a rediscount operation. It is clearly necessary to extend the permitted transactions of the Federal reserve banks beyond this very narrow scope for two reasons:

1. The desirability of enabling Federal reserve banks to make their rate of discount effective in the general market at those times and under those conditions when rediscounts were slack and when therefore there might have been accumulation of funds in the reserve banks without any motive on the part of member banks to apply for rediscounts or perhaps with a strong motive on their part not to do so.

2. The desirability of opening an outlet through which the funds of Federal reserve banks might be profitably used at times when it was sought to facilitate transactions in foreign exchange or to regulate gold movements."

A striking judicial recognition of the importance of open-market operations as an instrument of credit control and of the close relationship between such operations and the determination of the discount rate is found in the case of Raichle v. Federal Reserve Bank of New York, 34 Fed. (2) 910 (C.C.A. 2nd, 1929). In that case the plaintiff brought suit on August 6, 1928 to enjoin the Federal Reserve Bank of New York from (a) spreading propaganda concerning an alleged money shortage and increasing volume of collateral loans, (b) setting about to restrict the supply of credit available for investment purposes by engaging in open-market transactions through the sale of its securities, (c) raising the rediscount rate for its member banks in order to reduce the volume of security loans, and (d) coercing member banks to call collateral loans by declining to rediscount eligible commercial paper for such member banks.

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The United States District Court dismissed the bill for lack of equity and the Circuit Court of Appeals sustained the action of the lower court. Although the decision of the Circuit Court of Appeals was based upon the fact that the Federal Reserve Board, which was not joined in the bill, was an indispensable party defendant, the court also rendered a decision upon the merits of the case. In its opinion, the court emphasized the interdependence of the discount rate and open-market operations in the following language:

"The foregoing provisions enable the Federal Reserve Banks, without waiting for applications from their member banks for loans or rediscounts, to adjust the general credit situation by purchasing and selling in the open market the class of securities that they are permitted to deal in. The power 'to establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve Bank,' appears in the act (12 USCA § 357) with the open market powers. The two powers are correlative and enable the Federal Reserve Banks to make their rediscount rates effective."

The court also passed upon the constitutionality of the grant of power to the Federal Reserve System to control the discount rate and open-market operations:

"While it is alleged in the bill that the rediscount rate 'has been arbitrarily and unreasonably raised,' it was for the defendant, subject to the supervision of the Federal Reserve Board, to determine what would be a reasonable rediscount. It is not contended that the provision for fixing rates of discount is unconstitutional, nor would it seem even reasonable to argue that it is, after such decisions as *First National Bank v. Fellows ex rel, Union Trust Co.*, 244 U.S. 416, 37 S. Ct. 734, 61 L. Ed. 1233, L.R.A. 1918C,

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283, Ann. Cas. 1918E, 1169, and Westfall v. United States, 274 U.S. 256, 47 S.Ct. 629, 71 L.Ed. 1036 as well as the Legal Tender Cases, 110 U.S. 421, 4 S.Ct. 122, 28 L. Ed. 204, Farmers' and Mechanics' National Bank v. Dearing, 91 U.S. 29, 23 L. Ed. 196, and McCulloch v. Maryland, 4 Wheat, 316, 4 L.Ed. 579."

In discussing whether the Federal Reserve Board was an indispensable party to the litigation, the court said:

"It is specifically empowered to regulate open market transactions, to review and determine rates of discount and to make reports as to conditions in the Federal Reserve System. In such circumstances, the Bank is, as to the matters complained of here, a governmental agency under the direction of the Federal Reserve Board. If the plaintiff prevailed in his contention the Bank would be enjoined from fixing a discount rate which the Board had presumptively directed. Such a situation under familiar principles renders the Federal Reserve Board an indispensable party to the suit. Alcohol Warehouse Corp. v. Canfield, 11 Fed. (2d) 214.

The above opinion contains an accurate analysis of the relationship between the discount rate and open-market operations and establishes clearly that the control of open-market operations falls within the class of Federal Reserve policies which affect the economic life of the entire nation. It is obvious therefore that since the underlying principle of the original Federal Reserve Act was to place the determination of national policies in the Federal Reserve Board, a Government body having a national viewpoint, and that since the control of open-market operations is such a matter of national importance affecting the economic life of the whole nation, this power should be vested in the Federal Reserve Board just as the power to determine the discount rate is vested in the Board.

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Open-market operations of the Federal Reserve System, as they are known today, date from the year 1922. Prior to that time, practically all of the resources of the System had been utilized in supporting the Government's bond issues for the purpose of carrying on the war. This support was given by the Federal Reserve banks by discounting paper secured by Government obligations.

The liquidation of 1920 and 1921 caused a large scale repayment by member banks of their discounted paper and resulted in a sharp decline in the earning assets of the Federal Reserve banks.

However, there was in the market a large amount of Government securities and in order to obtain enough earning assets to meet their expenses the Federal Reserve banks began to purchase these securities. Before many weeks had elapsed it was discovered that the purchases of Government obligations by the Federal Reserve banks was having an unforeseen but none the less profound influence upon the volume and cost of credit.

Naturally, most of the purchases were made in New York City which was the principal market for Government securities. It was observed, however, that the sellers of the bonds would deposit the amount paid therefor in New York banks and the banks would put the money to their account at the New York Federal Reserve Bank and would use it to extinguish their indebtedness to such Reserve bank. The payment of the member bank's indebtedness to the Reserve bank naturally resulted in a decrease of the earning assets of such Reserve bank so that the purchase of Government securities by a Federal

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Reserve bank in the interior increased the earning assets of such Federal Reserve bank at the expense of the Federal Reserve Bank of New York. It was also observed that these uncoordinated purchases were upsetting the Government bond market and this was, of course, disturbing to the Treasury.

As a result of these observations it was decided at a conference of Governors of the Federal Reserve banks held in May, 1922, that the open-market operations of the Federal Reserve banks should be coordinated and, accordingly, a committee of five Governors was appointed to perform this function.

This committee functioned for about a year and during that time it was clearly observed that purchases of Government securities resulted in decreased discounts and in no increase in the total earning assets of the Federal Reserve banks taken collectively. As a consequence, the Conference of Governors of the Federal Reserve banks decided that "investment policy should give minor consideration to the question of earnings and constant consideration to the effects which open-market operations have upon the condition and the course of the money market and the volume of credit".

Realizing that open-market operations on a System basis would deprive the Federal Reserve Board of the power of effective credit control through the determination of the discount rate, the Board in 1923 recognized the open-market committee which had been formed at the Governors' Conference in 1922 and announced that from that time on open-market operations should be engaged in only with the approval

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of the Board. In 1930 the Board announced that as a result of a meeting attended by representatives of the twelve Federal Reserve banks, the number of members on the committee in charge of open-market operations was increased from 5 to 12 so as to include representatives of all the Reserve banks. By enacting the Banking Act of 1933, Congress, for the first time, gave the open-market committee an official legal status and affirmed the principle that the open-market policies of the System should be subject to the approval of the Federal Reserve Board by the following provision:

"(b) No Federal reserve bank shall engage in open-market operations under section 14 of this Act except in accordance with regulations adopted by the Federal Reserve Board. The Board shall consider, adopt, and transmit to the committee and to the several Federal reserve banks regulations relating to the open-market transactions of such banks and the relations of the Federal Reserve System with foreign central or other foreign banks."

The provision of the above subsection that no Federal Reserve bank shall engage in open-market operations except in accordance with regulations adopted by the Board was rendered ineffective, however, by the enactment of subsection (d) of section 12A which reads as follows:

"(d) If any Federal reserve bank shall decide not to participate in open-market operations recommended and approved as provided in paragraph (b) hereof, it shall file with the chairman of the committee within thirty days a notice of its decision, and transmit a copy thereof to the Federal Reserve Board."

Under the provisions of section 205 of the proposed bill, section 12A of the Federal Reserve Act would be clarified and revised

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so that open-market policies proposed by a committee representing the Reserve banks, or initiated by the Board after consultation with the committee, would be binding on all Federal Reserve banks.

Representation Of Federal Reserve Banks on
Board Controlling Open-Market Operations

The question has arisen as to whether the final authority over open-market operations of the System should be vested solely in the Federal Reserve Board as provided in the bill which passed the House or whether such authority should be vested in a group composed of members of the Board and representatives of the Federal Reserve banks as proposed in the original bill and as advocated by the American Bankers' Association. It must be realized that such a proposal is in effect the creation of another Board in which would be vested final authority over one of the most important instruments of credit control. This would, of course, result in a diffusion of responsibility and would create the undesirable possibility of a conflict between the group entrusted with control over open-market operations and the Federal Reserve Board which would retain power to determine the discount rate and to establish reserve requirements. Such a conflict might arise where a majority of the members of the Board thought that one course of action should be taken and a majority of the group vested with control of open-market operations thought a different course should be pursued. In such a case, two bodies with power to make final decisions on different phases of

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the same problem would be working at cross purposes with each other.

That this proposal for representation of private interests upon the Board charged with responsibility for the formulation of national monetary policies is contrary to the underlying principles of the Federal Reserve Act and is a revival of an idea which was rejected by President Wilson and by Congress when the original Act was under consideration is shown by the following.

In his book "An Adventure in Constructive Finance" Senator Glass relates that the bankers made a desperate fight to have inserted in the original Federal Reserve Act a provision giving them the right to have representatives selected or at least nominated by them included in the membership of the Federal Reserve Board. In the following passage from pages 112 to 114 of his book Senator Glass tells how this question arose and also shows that at the outset he was definitely committed to giving the banks representation on the Board:

"It was at this point that the President had us come to the White House for a conference concerning that feature of the bill that gave the banks minority representation on the Federal Reserve Board. I was very definitely committed to giving the banks some voice. Senator Owen, of the Senate committee, had sided with Mr. Bryan in opposition. At the White House conference McAdoo agreed at first with me; but later in the evening he proposed a compromise. The President decided against banking representation. This was one of the crucial questions the President had to determine. It was evident it might involve the failure of legislation by embittering the bankers should they be entirely excluded. If they should be included, Bryan and his following might revolt. I had urged the 'essential injustice and political inexpediency' of denying the banks minority representation. The President was not bothered about the political phase;

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but he was willing to discuss the justice of the thing. So convinced was I that the President was wrong in his conclusion that I sent him this note; which is reproduced here to indicate that the President was not easily persuaded nor the chairman of the committee entirely complaisant:

"At the risk of being regarded pertinacious I am going to ask if you will not consider the advisability of modifying somewhat your view of bank representation on the proposed Federal Reserve Board. The matter has given me much concern, and more than ever I am convinced that it will be a grave mistake to alter so radically the feature of the bill indicated. Last nite, when I came back to my hotel, I found Mr. Bulkley waiting, and he sat with me until past one o'clock this morning. Knowing that he was so earnestly for a government note issue and for government control, I imagined he would be delighted with the suggested alteration. I told him of the change without first indicating my own view; and, much to my astonishment and gratification, he instantly and vigorously protested, saying he had regarded the extent to which we had already put the government in control, together with the tremendous power of the Board, as the real weakness of the bill. He also said we could not escape the charge of exposing the banking business of the country to political control. As indicated to you last night, Mr. Bulkley is a strong man of the committee with whom we must reckon; hence his view of this proposed alteration fully confirms my belief that it would prove an almost irretrievable mistake to leave the banks without representation on the central board. You will note that the bill requires the three members selected by the banks to sever all bank connections before qualifying. Might it not be well at least to take Mr. McAdoo's suggestion and have the President select these men from a list proposed by the banks? With high esteem, etc.'."

Immediately following the quotation of his letter to President Wilson, Senator Glass goes on to state that he soon was won over to the President's view of the matter. The manner in which the proposal for banker representation on the Federal Reserve Board was defeated by President Wilson and the conclusive reasons for his position are

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shown in the following passage from pages 115 and 116 of Senator Glass' book:

"The President was adamant; and, if there was ever a lapse, I soon was to revive the conviction that Mr. Wilson knew more about these matters than I did. As anticipated, when the bill was introduced in Congress, bankers raised an uproar about this provision. With scarcely suppressed satisfaction, I headed a delegation of them to the White House to convince the President he was wrong. Forgan and Wade, Sol Wexler and Perrin, Howe and other members of the Currency Commission of the American Bankers Association constituted the party. The first two, peremptory and arbitrary, used to having their own way, did not mince matters. They evidently were not awed by 'titled consequence', for they spoke with force and even bitterness. Sol Wexler and Perrin were suave and conciliatory. The President was courteous and contained. These great bankers, arbiters for years of the country's credits, were grouped about the President's desk in the Executive office adjoining the Cabinet room. I sat outside the circle, having already voiced my own dissent from the President's attitude. President Wilson faced the group across the desk; and as those men drove home what seemed to me good reason after good reason for banker representation on the central board, I actually experienced a sense of regret that I had a part in subjecting Mr. Wilson to such an ordeal. When they had ended their arguments Mr. Wilson, turning more particularly to Forgan and Wade, said quietly: 'Will one of you gentlemen tell me in what civilized country of the earth there are important government boards of control on which private interests are represented?' There was painful silence for the longest single moment I ever spent; and before it was broken Mr. Wilson further inquired: 'Which of you gentlemen thinks the railroads should select members of the Interstate Commerce Commission?' There could be no convincing reply to either question, so the discussion turned to other points of the currency bill; and, notwithstanding a desperate effort was made in the Senate to give the banks minority representation on the reserve board, the proposition did not prevail."

President Wilson again confirmed this position in his message to the joint session of Congress on January 23, 1913, in the following language:

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"The control of the system of banking and of issue which our new laws are to set up must be public, not private; must be vested in the Government itself, so that the banks may be the instruments, not the matters, of business and of individual enterprise and initiative."

That the stand taken by President Wilson against representation of private interests on the Federal Reserve Board was adopted by Congress is shown by the following passage from page 20 of the Statement of Views, accompanying the Senate Report on the original Federal Reserve Act (Report 133, Part 2):

"Many of the big banks quite urgently insisted that the bankers should have representation upon the Federal reserve board. This was denied for the obvious reason that the function of the Federal reserve board in supervising the banking system is a governmental function in which private persons or private interests have no right to representation except through the Government itself. The precedents of all civilized governments is against such a contention."

The present proposal to vest control over open-market operations in a joint board consisting of members of the Federal Reserve Board and representatives of the Federal Reserve banks selected by directors, two-thirds of whom are elected by the member banks, is merely an effort to revive the principle urged by Bankers Forgan, Wade, Wexler, Perrin, Howe, and others, which was vigorously and convincingly denied and defeated by President Wilson.

Guiding Principle to be Followed by Federal Reserve
Board in Determining Open-Market Policies

The Banking Act of 1935 as originally introduced was criticized on the ground that the Federal Reserve Board was given an unlimited discretion as to the purposes of the open-market operations of the System.

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However, this criticism was eliminated in the House of Representatives by inserting in section 204(b) of the bill the following statement of objective:

"It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration."

That such a mandate is in harmony of the purposes of the original Federal Reserve Act is shown by the following quotation from page 7 of the Statement of Views accompanying the report of the Senate Committee on Banking and Currency (Report 133, part 2):

"The chief purposes of the banking and currency bill is to give stability to the commerce and industry of the United States, prevent financial panics or financial stringencies; make available effective commercial credit for individuals engaged in manufacturing, in commerce, in finance, and in business to the extent of their just deserts; put an end to the pyramiding of the bank reserves of the country and the use of such reserves for gambling purposes on the stock exchange."