FEDERAL RESERVE BANK
OF NEW YORK
Fiscal Agent of the United States

[Circular No. 3207
April 25, 1947]

TREASURY BILLS

To all Banking Institutions, and Others Concerned,
in the Second Federal Reserve District:

For your information we quote below the text of a statement in which the Secretary of the Treasury has announced certain changes in procedure regarding Treasury bills.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS, Friday, April 25, 1947. Press Service

Secretary of the Treasury Snyder announced today that beginning with the issue of Treasury bills to be dated May 1, 1947, and until further notice, the Treasury will invite tenders for bills in exchange for maturing bills as well as for cash, with equal treatment accorded all tenders, whether the bidders offer to exchange maturing bills or to pay cash for the new bills bid for. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The bills to be dated May 1 will be in the amount of $1.1 billion, about $200,000,000 less than the amount maturing on that date.

The procedure for accepting exchange as well as cash tenders is being adopted to facilitate weekly refunding operations in bills. The bill holdings of the Federal Reserve Banks recently were $15 billion out of a total of $17 billion outstanding. Under existing procedure, the Federal Reserve Banks replace their weekly maturing bill issues, in large part, by purchasing new issues from security dealers, who ordinarily bid for amounts greatly in excess of market needs. This is done solely to facilitate the bill operation, as the dealers charge no commission for this service, and obtain only the nominal profit from the transaction which is available to anyone. Under the new procedure the Federal Reserve Banks will be in a position to bid directly on an exchange basis for new issues in amounts not in excess of those required to replace maturing issues of bills originally acquired in the market.

Any addition to Federal Reserve holdings of bills would be purchased in the open market as at present.

In connection with the new arrangement the Federal Open Market Committee has issued the following direction with respect to the purchase of Treasury bills:

Until otherwise directed by the Federal Open Market Committee, the twelve Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such banks on a discount basis at the rate of 3/8 per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, *upon the request of the seller on or before the last business day preceding the closing day on which the Treasury will accept tenders of the bills for new Treasury bills,* will sell to him Treasury bills of like amount and maturity at the same rate of discount.

Following is the text of a press statement issued by the Federal Open Market Committee and released for publication April 25, 1947:

The Treasury Department this week revised its Treasury bill offering circular so as to permit bidders for Treasury bills to obtain new Treasury bills by the exchange of an equivalent amount of maturing bills, to the extent that their tenders are accepted. Concurrently the

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Federal Open Market Committee has authorized the Federal Reserve Banks to place weekly tenders for bills in an amount not exceeding the amount of their weekly maturities. The Federal Reserve Banks will receive the same percentage allotment of bills as will other bidders at the same price. Acquisitions of bills by the Federal Reserve Banks, in this manner, will represent the replacement of bills originally purchased in the market and, like other exchanges of maturing securities for new securities, would not be subject to the limitation contained in subsection (b) of Section 14 of the Federal Reserve Act.

No new credit will be made available to the Treasury by the Federal Reserve Banks as a result of this change in procedure, nor will new reserve funds be placed at the disposal of the banks of the country. Funds which have already been provided to the market through bill purchases will not be increased by this action.

These related actions were taken to relieve a situation which has become less and less appropriate, as weekly maturities of bills held by the Federal Reserve Banks have increased, until recently they have ordinarily been more than $1,100 million out of a total weekly maturity of $1,300 million. In the past the market has taken all of each week's offerings of Treasury bills and has promptly sold to the Federal Reserve Banks that portion of the offering which it did not wish to hold. Thus the Federal Reserve Banks indirectly replaced part or all of their Treasury bill maturities. Such a procedure means that the market places tenders for new issues of bills in amounts bearing no relation to market requirements, the excess being taken for the purpose of immediate sale to the Federal Reserve Banks. In these circumstances, a more direct method of replacing maturing bills held by the Federal Reserve Banks has been deemed desirable.

The text of the public notice of the new offering of Treasury bills is set forth in our Circular No. 3206, dated April 25, 1947.

Allan Sproul,
President.