FEDERAL RESERVE BANK
OF NEW YORK

Fiscal Agent of the United States

[Circular No. 3230
July 3, 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 press statement issued by the Federal Open Market Committee released for publication July 3, 1947:

> The Federal Open Market Committee of the Federal Reserve System has directed the Federal Reserve Banks to terminate the policy of buying all Treasury bills offered to them at a fixed rate of ⅜ per cent per annum and to terminate the repurchase option privilege on Treasury bills. The new policy will apply to bills issued on or after July 10, 1947. Existing policy will continue to apply to bills issued prior to that date.
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> The above action was taken by the Committee after consultation with the Secretary of the Treasury.
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> The so-called posted rate on Treasury bills was a wartime measure adopted in 1942 to facilitate war financing and to stabilize the market for Government securities. It was designed primarily to encourage banks to make fuller use of their excess reserves and thus bring about a wider distribution of Treasury bills. Under current peacetime conditions these arrangements no longer serve their original purpose and tend to distort conditions in the money market and the securities market. Certificates of indebtedness, which bear a higher rate than Treasury bills, have largely replaced bills in the market, not only as a medium for the investment of short-term funds but also as a means by which banks adjust their reserve positions. Increased amounts of Treasury bills have been sold to the Federal Reserve Banks by the market, and bills have gradually ceased to be a market instrument. Currently, only about 1.5 billion dollars of the nearly 16 billion total of Treasury bills outstanding are held outside the Federal Reserve Banks. The Treasury bill rate has thus been eliminated as a factor in the money market. The need for large-scale borrowing of new money by the Treasury ceased with the completion of the Victory Loan Drive and since that time the public debt has been reduced substantially. Consequently there is no reason for continuing this wartime mechanism. On the contrary, its elimination will serve a useful purpose in restoring the bill as a market instrument and giving added flexibility to the Treasury's debt management program.
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> Under the new policy the Treasury bill rate will be expected to find its level in the market in proper relation to the yields on certificates of indebtedness. The Federal Reserve System will continue to purchase and hold Treasury bills as well as other Government securities in amounts deemed necessary in the maintenance of an orderly Government security market and the discharge of the System's responsibility with regard to the general credit situation of the country.
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> As a result of the action taken by the Board of Governors of the Federal Reserve System in April to transfer to the Treasury the excess earnings of the Federal Reserve Banks, the Reserve Banks are now paying into the Treasury approximately 90 per cent of their net earnings after dividends. Since most of the Treasury bills now outstanding are held by the Federal Reserve Banks, whatever increase in interest cost to the Treasury results from the termination of the posted buying rate and repurchase option will be largely offset by increased Reserve Bank payments to the Treasury.

The elimination of the so-called posted buying rate and repurchase option on Treasury bills beginning with the issue to be dated July 10, 1947, has necessitated certain changes in the public notice of the new offering of Treasury bills which we should like to call to your attention. The text of this notice is set forth in our Circular No. 3231, dated July 3, 1947.

ALLAN SPROUL,
President.