

Circular No. \_\_\_\_\_  
Series of 1915.

F E D E R A L   R E S E R V E   B O A R D .

November\_\_\_\_, 1915.

GENERAL OPEN MARKET OPERATIONS.

The Federal Reserve Act in Section 14, under the head "Open Market Operations," provides that:

"Any Federal reserve bank may, under the rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers, and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the endorsement of a member bank."

The Act also provides that every Federal reserve bank shall have power:

"To deal in gold coin and bullion at home or abroad \* \* \* ."

"To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes, or in anticipation of the receipt of assured revenue by any State, county, district, political subdivision, or municipality \* \* \* \* ."

"To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined."

Further in the same section permission is given to each Federal reserve bank:

"\* \* \* to buy and sell \* \* \* through (its) correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than 90 days to run, and which bear the signature of two or more responsible parties."

Several of these classes of transactions have already been provided for in the circulars and regulations heretofore issued by the Federal Reserve Board as follows:

In Circular No. 7, Series of 1915, regulations have been established for the general purchase of warrants;

In letters to the various Federal reserve banks the conditions have been indicated under which bonds and notes of the United States may be dealt in;

In letters to Federal reserve banks conditions under which Federal reserve notes may be exchanged for gold, gold coin or gold certificates, have been stated, and operations of this nature are in progress;

In circulars revised from time to time and culminating in Circular No. 18, Series of 1915, conditions have been established for the purchase of bankers' acceptances growing out of foreign trade operations;

In Circular No. 19, provision has been made for the purchase of acceptances of State banks and bankers growing out of domestic operations of specified classes.

THERE REMAIN STILL TO BE DEALT WITH THE PURCHASE AND SALE OF "CABLE TRANSFERS AND BILLS OF EXCHANGE OF THE KINDS AND MATURITIES BY THIS ACT MADE ELIGIBLE FOR REDISCOUNT".

The present circular and regulation is intended to cover these two items, and the Board wishes particularly to call attention to the purpose of the open market section of

the Federal Reserve Act. This purpose is twofold - to enable the Federal Reserve Banks to exert a greater influence upon prevailing rates of interest by the use of their purchasing power whenever conditions seem to make it desirable that they should exert such influence; and when, owing to the lack of applications for rediscounts, they are unable to influence rates through the latter means. In addition to this the open market power may afford to Federal Reserve Banks the opportunity of purchasing in the open market enough paper to enable them to provide reasonably for their expenses and dividends. The Board is of the opinion that the reserve banks should, when occasion demands, stand ready to engage in open market transactions, as buyers or sellers to the extent that is necessary to attain these or any other desirable object.

The Federal Reserve Board does not wish to be understood as encouraging expansion of credits when in some Districts at least there should be contraction, but rather that the Federal Reserve Banks taking cognizance of the conditions in their respective districts will avail themselves of the privileges granted by the Act as explained in our letter of October 8 just as they have other open market powers already defined if and when it seems wise to do so.

CHARLES S. HAILIN,

Governor.

H. PARKER WILLIS,

Secretary.

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