

OPEN MARKET INVESTMENT POLICY

Whereas the Federal Reserve Board, under the powers given it in Sections 13 and 14 of the Federal Reserve Act, has authority to limit and otherwise determine the securities and investments purchased by Federal reserve banks;

Whereas the Federal Reserve Board has never prescribed any limitation upon open market purchases by Federal reserve banks;

Whereas the amount, time, character, and manner of such purchases may exercise an important influence upon the money market;

Whereas an open market investment policy for the twelve banks composing the Federal reserve system is necessary in the interest of the maintenance of a good relationship between the discount and purchase operations of the Federal reserve banks and the general money market;

Whereas no such System policy has been laid down by the Federal Reserve Board nor developed by the Federal reserve banks;

Whereas it appears that during the year 1922 the Federal reserve banks have made large purchases of investments in the open market mainly for the purpose of assuring the earning of their expenses and dividends, without much regard to the bearing of such purchases upon the money market and general credit requirements of the country;

Whereas the total earning assets of the twelve Federal reserve banks for the year 1922 have approximated 1200 millions, while aggregate earning assets for the twelve banks of approximately 800 millions would have sufficed to have enabled the banks to have earned their expenses and dividends;

Whereas approximately 400 millions of money has been put into

the money market by the action of the Federal reserve banks and maintained there in excess of their earnings requirements into a time when the general credit situation needed restraining influence rather than stimulus;

Whereas such open market purchases have consisted very largely of United States Government securities; and

Whereas heavy investments in United States securities, particularly short-dated certificate issues, have occasioned embarrassment to the Treasury in ascertaining the true condition of the money and investment markets from time to time,

THEREFORE, Be it Resolved, That the Federal Reserve Board, in the exercise of its powers under the Federal Reserve Act, lay down and adopt the following principles with respect to open market investment operations of the Federal reserve banks, to-wit:

(1) That the time, manner, character, and volume of open market investments purchased by Federal reserve banks be governed with primary regard to the effect of such purchases or sales on the general credit situation.

(2) That in making the selection of open market purchases, careful regard be always given to the bearing of purchases of United States Government securities, especially the short-dated issues, upon the market for such securities, and that open market purchases be mainly commercial investments, except that Treasury certificates be dealt in, as at present, under so-called "repurchase" agreement.

(3) That in order to enable Federal reserve banks to earn their dividends with a minimum volume of open market purchases at times when there is no active rediscount demand made on Federal Reserve banks, open market purchases made by reserve banks shall be pro-rated among them in accordance with their respective requirements.

Be It Further Resolved, That on and after April 1, 1923, the present Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities be discontinued, and be superseded by a new committee known as the Open Market Investment Committee for the Federal Reserve System, said Committee to consist of five representatives from the reserve banks and to be under the ex-officio chairmanship of the Federal Reserve Board; and that it be the duty of this Committee to arrange for the purchase and sale and distribution of the open market purchases of the Federal reserve banks in accordance with the above principles.

A. C. M. March 21, 1923.