

FEDERAL RESERVE BOARD

WASHINGTON

X-3689

April 7, 1923.

SUBJECT: Policy Governing Open Market Purchases by Federal Reserve Banks and the Administration thereof.

Dear Sir:

This is to advise you formally of the action of the Federal Reserve Board taken at its meeting of March 22nd, with respect to open market purchases by Federal Reserve Banks, and which was discussed at the recent conference between the Federal Reserve Board and the Governors of the Federal Reserve Banks.

The Board has adopted the following principles with respect to open market investment operations of the Federal Reserve Banks:

(1) That the time, manner, character and volume of open market investments purchased by Federal Reserve Banks be governed with primary regard to the accommodation of commerce and business, and 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 primarily commercial investments, except that Treasury certificates be dealt in, as at present, under so-called "Repurchase" agreement.

In order to provide for the proper administration of the policy defined above, the Board rules 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Committee of Governors on Centralized Execution of Purchases and Sales of Government securities be discontinued, and be superseded by a new committee known as the Open Market Investment Committee for the Federal Reserve System, said committee to consist of five representatives from the Federal Reserve Banks and to be under the general supervision of the Federal Reserve Board; and that it be the duty of this committee to devise and recommend plans for the purchase, sale and distribution of the open market purchases of the Federal Reserve Banks in accordance with the above principles and such regulations as may from time to time be laid down by the Federal Reserve Board.

In accordance with the informal agreement made at the time of the last Governors' Conference, the membership of the Open Market Investment Committee for the Federal Reserve System, will be identical with the membership of the old Committee, as follows: .

Federal Reserve Bank of Boston
Federal Reserve Bank of New York
Federal Reserve Bank of Philadelphia
Federal Reserve Bank of Cleveland
Federal Reserve Bank of Chicago

By order of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

To Governors of Federal Reserve Banks.
Copies to Agents.