

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9616

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1936.



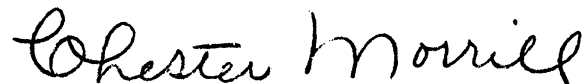
Dear Sir:

During the Presidents' Conference on May 26, 1936, advice was given as to actions taken on May 25, 1936, by the Federal Open Market Committee in regard to the adoption of the formula for the allotment of securities in the system open market account to the individual Federal reserve banks; the transfer to the system account of Government securities held in the individual accounts of Federal reserve banks; the discontinuance by Federal reserve banks of purchases for their own investment accounts of Government securities pending sale of such securities for the account of member or non-member banks; authority to each Federal reserve bank to make temporary purchases of Government securities under resale agreements; and authority to individual Federal reserve banks to replace maturing securities and to make shifts between maturities of securities held in their individual accounts.

There is inclosed herewith for the records of your bank a set of copies of excerpts from the minutes of the meeting of the Federal Open Market Committee setting forth the resolutions adopted by the committee on these matters.

Since the date on which these actions were taken complications in working out the details connected with the allocations among the Federal reserve banks of the securities held in that account have developed with the result that the members of the Federal Open Market Committee who participated in its meeting on May 25 have unanimously approved deferring the effective date of the transfers to the system account of Government securities held in the individual accounts of Federal reserve banks and of the reallocations of the securities in the system account from June 15 to June 23.

Very truly yours,



Chester Morrill, Secretary,
Federal Open Market Committee.

Inclosures.

TO ALL PRESIDENTS

X-9616-a

Excerpts from Minutes of Meeting of Federal Open
Market Committee on May 25, 1936.

"After detailed discussion of the various aspects of the questions involved, upon motion duly made and seconded and by unanimous vote, the Committee (a) approved and continued in effect the formula adopted by the Federal Open Market Committee as constituted prior to March 1, 1936, and the practice followed under its authority, with respect to allotments to the various Federal Reserve banks of Government securities held in the System open market account; (b) authorized and directed the executive committee to make such adjustments as of June 15, 1936, as may be necessary to bring the allotment to each Federal reserve bank of Government securities held in the System open market account into conformity with such formula; and (c) authorized and directed the executive committee to make thereafter from time to time such readjustments as may be necessary to maintain the distribution of Government securities among the Federal reserve banks in accordance with such formula: provided, however, that if at any time the reserve ratio of any Federal reserve bank should fall below 50% or would be reduced below 50% by reason of the operation of such formula the executive committee shall make such readjustments in the allotments as shall be necessary to raise the reserve ratio of such bank to 50% by allocating the necessary amount of securities to the other Federal reserve banks in accordance with the formula. In this connection it was agreed that any profit received by any individual Federal reserve bank as a result of the transfer as of June 15, 1936, to the System open market account of United States Government securities held in the individual investment account of such Federal reserve bank should be treated as a non-recurrent item which should not be taken into account in the application of such formula. It was also agreed that there should be obtained from each Federal reserve bank at quarterly intervals reports showing the nature and amount of any unusual charge-offs which such bank anticipates will be made during or at the end of each calendar year and that the Board of Governors of the Federal Reserve System should be requested to endeavor to bring about the observance of a uniform policy among the Federal reserve banks with reference to such charge-offs."

* * * * *

"Accordingly, upon motion duly made and seconded and by unanimous vote, the Committee directed that the Federal reserve banks transfer on June 15, 1936, to the System open market account, at the market prices prevailing on that date, all the United States

Government securities held in the individual investment accounts of such Federal reserve banks, including Government securities held as investments of self-insurance funds."

* * * * *

"Upon motion duly made and seconded, and by unanimous vote, the Committee directed that any Federal reserve bank which purchases and holds for its own investment account Government securities pending their sale for the account of member or non-member banks shall not later than June 15, 1936 discontinue such purchases and sell all Government securities so held."

* * * * *

"Upon motion duly made and seconded and by unanimous vote, the Committee granted authority to each Federal reserve bank to make temporary purchases of Government securities under resale agreements for periods not exceeding fifteen days."

* * * * *

"Accordingly, upon motion duly made and seconded, and by unanimous vote, authority was granted, until June 15, 1936, to each Federal reserve bank holding Government securities in its individual investment account to replace maturing securities in such account and, with the approval of the executive committee, to make shifts between the maturities in such account, provided that no change in the total amount of Government securities held by such Federal reserve bank shall be effected by such transactions."

* * * * *