

February 24, 1961

TO: Federal Open Market Committee  
FROM: Robert G. Rouse and John R. Farrell

REC'D IN RECORDS SECTION  
MAR 3 - 1961

The procedure for allocation of securities in the Open Market Account which became effective September 1, 1953 (Mr. Riefler's letter of August 25, 1953) and amended March 1, 1960, provides that:

"Securities in the Account shall be reallocated April 1 of each year on the basis of daily averages of total assets for the 12 months ending with the last day of February."

In anticipation of the meeting of the Federal Open Market Committee on March 7, at which the procedure for allocation of securities will be reviewed, a pro forma reallocation of securities held in the System Open Market Account has been made as of February 1, 1961, based on the ratios of each Bank's average total assets for the 11-month period March 1, 1960-January 31, 1961 (337 days). Ordinarily, only minor changes in basic percentage participations occur during the remaining month of the prescribed base period. However, the situation this year may not follow the usual pattern because Table I shows adjustments based on a one-day situation on January 31 that may vary considerably from the adjustments necessary when the reallocations are actually made.

On the pro forma basis, the larger gains in adjusted participation percentage points are .09 for both New York and Chicago; and the largest loss is .25 for Boston. Other changes are detailed in Table II.

The pro forma reallocation would increase the dollar amount of participations of seven Banks and decrease those of five Banks, as summarized from Table I:

To: Federal Open Market Committee -2-

	<u>Increases in participation</u>		<u>Decreases in participation</u>
New York	\$24,768,000	Boston	\$66,764,000
Philadelphia	12,142,000	Cleveland	26,942,000
Atlanta	23,933,000	Richmond	1,488,000
Chicago	10,834,000	St. Louis	4,995,000
Kansas City	15,437,000	Minneapolis	4,010,000
Dallas	7,732,000		
San Francisco	<u>9,353,000</u>		
	\$104,199,000		<u>\$104,199,000</u>

The foregoing figures are net, after two types of special adjustments. The first amounted to \$47,594,000 from Atlanta to New York and Chicago to prevent Atlanta's reserve ratio falling below 35 per cent, as provided in paragraph 3 of Statement of Procedures with Respect to Allocations of the System Open Market Account. The second amounted to \$73,537,000 from Boston and Minneapolis, and also to New York and Chicago, to bring the reserve ratios of Boston and Minneapolis up to 35 per cent. While this type of adjustment may not be provided for specifically in the Statement of Procedures and has not been necessary in previous years, it is of the same general nature.

It has never been necessary to invoke paragraphs 5 or 6 of the Statement of Procedures, which provide for adjustments of participations in the event a Bank's reserve ratio falls below 30 per cent.

The high and low reserve ratios during the period April 1, 1960-January 31, 1961, and on January 31, 1961, are shown in Table III. The highest ratio reached during this period was Philadelphia's 46.7 on April 18, 1960; and the lowest was Boston's 31.4 on January 25, 1961. System ratios ranged between 41.7 and 37.0.

The largest changes in reserve ratios resulting from the pro forma

To: Federal Open Market Committee -3-

reallocation would be an increase of 3.0 per cent at Boston (after adjustment) and a decrease of 1.0 (net, after adjustment) per cent at Atlanta. No other changes would be greater than an increase of 0.7 per cent at Cleveland and a decrease of .08 per cent at Kansas City, neither of which was involved in the special adjustments. The ratios would range from 39.4 at New York and Chicago to 35.0 at Boston, Atlanta, and Minneapolis, as shown in Table I. Had the three low-ratio Banks not been subject to adjustment, their reserve ratios would be 32.1, 33.1, and 34.1 per cent, respectively.

Continuing the 5.7 point decline during the period April 1, 1958-April 1, 1960, the System's reserve ratio dropped an additional 3.4 points to 38.1 per cent during the period April 1, 1960 through January 31, 1961. The current decline has resulted from the continued outflow of gold and from an increase of \$1.3 billion in System Open Market Account securities holdings; member bank borrowings are now relatively low.

Table IV shows, by months and in terms of index numbers, the relative changes in total assets at each Bank and the System during the past 13 months. The table is based on average annual total assets used for the previous reallocation. Permission to count all vault cash as reserves, effective November 24, 1960, and the decline in member bank borrowings have resulted in a substantial decrease of \$1.6 billion in member bank reserve balances since the last reallocation.

On the basis of the 11 months' experience reflected in the pro forma reallocation as of February 1, there appears to be no occasion for not making the forthcoming reallocation under existing procedure. At

To: Federal Open Market Committee -4-

the time of reallocation, Monday, April 3, adjustments may be necessary at one or more Banks, similar to those set forth in Table I, to prevent reserve ratios from falling below 35 per cent or to build reserve ratios up to this level.

Robert G. Rouse

John R. Farrell

**Attachments:**

Tables I, II, III, and IV.

PRO FORMA REALLOCATION OF U. S. GOVERNMENT SECURITIES IN SYSTEM OPEN MARKET ACCOUNT, FEBRUARY 1, 1961  
(In thousands of dollars)

TABLE I

	System	Boston	New York	Phila delphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minne- apolis	Kansas City	Dallas	San Francisco
A. Daily average of total assets, March 1, 1960 - January 31, 1961	52,217,383	2,802,125	12,919,632	3,013,619	4,433,419	3,302,178	3,003,723	8,874,388	2,100,624	1,221,160	2,271,582	2,119,539	6,155,394
B. Ratio (per cent) based on "A"	100.0	5.3663	24.7420	5.7713	8.4903	6.3239	5.7523	16.9951	4.0229	2.3386	4.3502	4.0591	11.7880
C. Actual allocations January 31, 1961	26,570,085	1,427,876	6,627,429	1,521,297	2,282,822	1,681,754	1,456,864	4,547,683	1,073,883	616,559	1,140,415	1,070,774	3,122,729
D. Allocation on basis of "B"	26,570,085	1,425,830	6,573,970	1,533,439	2,255,880	1,680,266	1,528,391	4,515,613	1,068,888	621,368	1,155,852	1,078,506	3,132,082
E. Difference	+ 121,000	- 2,046	- 53,459	+ 12,142	- 26,942	- 1,488	+ 71,527	- 32,070	- 4,995	+ 4,809	+ 15,437	+ 7,732	+ 9,353
E.1 Distribution of that portion of D which Banks cannot take without lowering reserve ratios below 35 per cent	+ 47,594		+ 34,721				- 47,594	+ 12,873					
E.2 Distribution of amounts necessary to bring Banks up to 35 per cent reserve ratio	+ 73,537	- 64,718	+ 43,506					+ 30,031		- 8,819			
E.3 Net change in participation	+ 104,199	- 66,764	+ 24,768	+ 12,142	- 26,942	- 1,488	+ 23,933	+ 10,834	- 4,995	- 4,010	+ 15,437	+ 7,732	+ 9,353
F. Allocation after adjustment	26,570,085	1,361,112	6,652,197	1,533,439	2,255,880	1,680,266	1,480,797	4,558,517	1,068,888	612,549	1,155,852	1,078,506	3,132,082
G. Adjusted holdings ratio	100.0	5.1227	25.0364	5.7713	8.4903	6.3239	5.5732	17.1566	4.0229	2.3054	4.3502	4.0591	11.7880
H. Actual reserve ratio (per cent) January 31, 1961	38.1	32.0	39.6	37.7	37.3	36.8	36.0	39.5	38.1	34.6	38.9	36.6	38.7
I. Reserve ratio (per cent) January 31, 1961 adjusted for allocation	38.1	35.0	39.4	37.2	38.0	36.8	35.0	39.4	38.4	35.0	38.1	36.3	38.6

BOARD OF GOVERNORS  
OF THE FEDERAL RESERVE SYSTEM,  
DIVISION OF BANK OPERATIONS.

COMPARISON OF EACH FEDERAL RESERVE BANK'S PER CENT OF PARTICIPATIONS  
IN THE SYSTEM OPEN MARKET ACCOUNT

TABLE II

Federal Reserve Bank	Present (4-1-60)	Pro forma (1-31-61) Adjusted	Potential change (adjusted)	
			Increase	Decrease
Boston	5.3740	5.1227		.2513
New York	24.9432	25.0364	.0932	
Philadelphia	5.7256	5.7713	.0457	
Cleveland	8.5917	8.4903		.1014
Richmond	6.3295	6.3239		.0056
Atlanta	5.4831	5.5732	.0901	
Chicago	17.1158	17.1566	.0408	
St. Louis	4.0417	4.0229		.0188
Minneapolis	2.3205	2.3054		.0151
Kansas City	4.2921	4.3502	.0581	
Dallas	4.0300	4.0591	.0291	
San Francisco	11.7528	11.7880	.0352	
Totals	100.0	100.0	.3922	.3922

Memorandum

1% of Open Market Account 1-31-61 = \$265,700,000  
 .1% " " " " " = 26,570,000  
 .01% " " " " " = 2,657,000

BOARD OF GOVERNORS  
OF THE FEDERAL RESERVE SYSTEM,  
DIVISION OF BANK OPERATIONS.

COMPARISON OF RESERVE RATIOS APRIL 1, 1960 - JANUARY 31, 1961

TABLE III

Federal Reserve Banks	Ratios on April 1, 1960	Ratios on January 31, 1961	High ratios		Low ratios	
			Date	Per cent	Date	Per cent
Boston	39.0	32.0	7/13/60	40.9	1/25/61	31.4
New York	43.9	39.6	5/31/60	45.7	12/29/60	33.1
Philadelphia	42.3	37.7	4/18/60	46.7	12/21/60	35.6
Cleveland	42.2	37.3	4/25/60	44.1	12/23-26/60	35.7
Richmond	40.0	36.8	10/11/60	41.0	1/16/61	34.4
Atlanta	36.8	36.0	4/18/60	41.1	1/25/61	33.7
Chicago	40.5	39.5	5/25/60	43.7	12/27/60	36.6
St. Louis	40.8	38.1	4/15/60	41.9	1/3/61	35.3
Minneapolis	34.1	34.6	6/30/60	40.7	5/27-30/60	31.8
Kansas City	37.3	38.9	12/1/60	41.0	5/2/60	33.6
Dallas	40.7	36.6	12/29/60	44.4	5/31/60	34.6
San Francisco	44.2	38.7	4/11/60	46.3	10/13/60	37.0
System	41.5	38.1	4/5/60	41.7	1/20-22/61	37.0

BOARD OF GOVERNORS  
OF THE FEDERAL RESERVE SYSTEM,  
DIVISION OF BANK OPERATIONS.

INDEX NUMBERS--DAILY AVERAGE TOTAL ASSETS OF FEDERAL RESERVE BANKS  
 BY MONTHS, JANUARY 1960 - JANUARY 1961  
 (Average total assets for year ended February 29, 1960 = 100)

TABLE IV

Federal Reserve Bank	1960												1961
	January	February	March	April	May	June	July	August	September	October	November	December	January
Boston	100.27	98.03	96.49	97.88	97.82	99.05	100.32	98.40	98.25	98.89	99.89	97.73	97.91
New York	100.54	98.29	97.92	98.13	98.43	99.45	99.55	98.43	98.89	98.99	99.07	97.89	96.69
Philadelphia	100.76	98.57	98.27	98.92	99.58	99.35	100.27	99.21	98.91	99.10	100.69	99.73	98.79
Cleveland	99.97	97.32	97.48	97.69	97.58	98.02	98.26	97.73	97.48	97.10	97.73	96.91	95.42
Richmond	100.44	98.69	96.75	97.38	96.53	97.86	97.83	97.49	99.35	100.26	101.06	100.35	98.40
Atlanta	103.53	101.75	99.80	101.34	99.93	100.28	100.68	100.13	99.82	99.99	101.23	101.27	100.56
Chicago	99.96	98.03	97.13	96.87	97.71	98.34	98.82	98.83	98.49	98.26	98.83	97.29	95.96
St. Louis	101.63	98.84	96.85	97.46	96.72	97.50	97.44	97.05	97.19	99.34	100.45	100.04	99.07
Minneapolis	99.79	97.64	96.20	97.12	97.10	98.17	99.16	98.49	99.21	100.06	101.26	97.85	97.16
Kansas City	101.06	98.85	97.66	97.88	97.64	98.36	99.70	100.32	100.65	100.87	102.22	101.74	101.79
Dallas	102.29	99.03	97.72	98.49	97.39	97.48	98.74	98.91	99.52	100.05	102.31	100.77	100.62
San Francisco	100.14	97.71	96.79	98.05	97.64	98.37	98.86	98.66	98.49	98.29	98.90	97.92	96.82
System	100.72	98.47	97.58	98.08	98.06	98.79	99.24	98.68	98.83	99.01	99.74	98.61	97.56

BOARD OF GOVERNORS  
 OF THE FEDERAL RESERVE SYSTEM  
 DIVISION OF BANK OPERATIONS.