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FEDERAL RESERVE BANK OF NEW YORK

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February 1, 1955.

Hon. C. Canby Balderston,  
Board of Governors of the  
Federal Reserve System,  
Washington 25, D. C.

Dear Governor Balderston:

On December 7, 1953, as President of the Federal Reserve Bank selected to execute transactions for the System Open Market Account, I sent to each member of the Federal Open Market Committee, and to each of the Reserve Bank Presidents not then serving on the Committee, a letter outlining the staff organization and budget of the Securities function or department at the Federal Reserve Bank of New York. Subsequently, in letters similarly addressed on April 9, 1954, I outlined the major changes in the official staff of the function which became effective on June 1, 1954, and their purpose.

There has now been sufficient experience with the new arrangements to provide a basis for another report. This report has been prepared in the form of a review of operations and procedures during the past year. If the review finds sufficient interest among committee members and presidents, I would propose to submit a similar general summary in January of each year.

In addition to the "review of the year", the report includes attachments which furnish further detail on the allocation of duties within the organization of the Securities function of the New York Bank, and on the budget of the function. There is also attached a memorandum on the subject "Improving Communications Between the Federal Open Market Committee and the Account Management". The suggestions of this memorandum are advanced for consideration without particular preference or endorsement on our part. They do, however, represent our belief that a variety of possibilities exists for increasing the exchange of experience and the flow of information between the operating staff at the Federal Reserve Bank of New York and the members of the Federal Open Market Committee and their staffs.

Yours faithfully,

  
Allan Sproul,  
President.

Encls.

IMPROVING COMMUNICATIONS BETWEEN THE FEDERAL  
OPEN MARKET COMMITTEE AND THE ACCOUNT MANAGEMENT

A Memorandum Prepared for the Federal Open Market Committee by the Securities Function at the Federal Reserve Bank of New York, January 1955

The physical separation of most of the members of the Federal Open Market Committee from the actual day-to-day operations of the System Open Market Account, for which they are jointly responsible, makes it more difficult than might ordinarily be the case for them to follow, closely, each transaction in the Account and to be continuously aware of the reserve situation and the market circumstances underlying the operating decisions that surround such transactions. An effort has been made, therefore, to explore possibilities for improving communications and the flow of information between the management of the Account and the Committee members.

In making this exploratory examination of the problem, it has been recognized that the burdens of an increase in communications are heavy, both at the receiving and at the originating end. Members of the Federal Open Market Committee, and their senior aides, cannot allocate full time to this one aspect of their duties as Federal Reserve officials; and they should not be burdened with more detail on System Account operations than they want and need. The officers and staff of the Federal Reserve Bank of New York, who conduct open market operations, must give these operations their major attention and cannot afford time to prepare unwanted reports. Nor can the preparation of such reports be wholly delegated to men without operating duties. If they are to meet the Committee's needs, they must be largely the first-hand work of the men who make the daily operating decisions. Within these limits of need and time, however, it is clear that those who operate the System Account and who are, in some measure, the eyes and ears of the Federal Open Market Committee, must do everything practicable to convey all relevant information concerning their operations to the members of the Committee.

The Securities Department of the Federal Reserve Bank of New York, in which open market operations are conducted, has for some time been discharging part of this responsibility. It sends market wires twice daily to the Reserve Bank presidents, maintains telephone contact with the Board staff throughout each day, helps to prepare a daily letter sent to the Board and all Reserve Banks after the close of business each day, and prepares weekly reports to the Open Market Committee and periodic reports in advance of each meeting of either the Executive Committee or the full Committee. Recently the scope of these various reports has been expanded, wherever practicable, to include analysis of some of the problems that arise in implementing policy objectives through the day-to-day administration of the Account. Since June 1, 1954, the Manager of the Account has also made a daily telephone call, shortly after the opening of the markets, to outline to a representative of each member of the Executive Committee the prospective reserve situation, money market conditions, and the Manager's tentative plan of action for the day.

This memorandum presents several suggestions that might further improve this communications job. Suggestions aimed at improving the present written and telephone reports are listed first, followed by suggestions for widening contacts between the management of the Account and senior officials throughout the Federal Reserve System.

I. Improving Written and Telephone Reports

(1) Despite the changes that have been made recently in the format and presentation of the weekly open market letter and the reports to the meetings of the Executive Committee and full Committee, more could be done. The objective of further changes should be to give the reader an improved feel of the problems confronted by the Manager of the Account and fuller background on

the operating decisions that have been made. It should be possible to make the language of these reports clearer and less technical, and to make some of the reports shorter, without sacrificing significant details that should be included. The use of charts and an improved use of tables might work toward this end. The people responsible for preparing the reports are continuing to seek improvements. Suggestions from those who receive and read the reports should help this process. It may be possible, for example, should the Committee so wish, to put most of the extensive detail into the weekly reports, and to reduce the detail in the reports to the Executive Committee, while broadening the approach of the latter.

(2) An attempt might be made to make more frequent informal reports to the members of the Federal Open Market Committee, and perhaps to all Bank presidents, on specific problems or developments that arise from time to time in our open market operations. The purpose of these reports would be to amplify certain parts of the material presented in summary discussion in the more formal reports. An illustration would be the series of memoranda which were written last year to describe the first few experiences in cash trading. Occasional reports of this sort might also be employed as an informal way for the Manager of the Account to convey, to the Committee, opinions and judgments on important money market developments, in a manner that would not be appropriate for the more formal reports. These communications might take the form of letters from the Manager of the Account to the Committee members, or from the President of the New York Bank and the Manager, jointly.

(3) The regular morning telephone calls from the Manager of the Account to the Board of Governors, and the Reserve Bank president (other than New York) on the Executive Committee, have proved useful and should be continued. By centering these telephone conversations on current issues and problems,

avoiding a stereotyped routine, the System officials participating in them-- both in New York and at the other end of the line--should be able to make them increasingly useful. One possible improvement would be to arrange to have each member of the Executive Committee actually on the line from time to time, although with present equipment it would not ordinarily be mechanically feasible for all of them to be on at one time. The possibility of including in these conversations, at times, the Bank presidents who are alternate members of the Executive Committee (or their representatives) might also be explored. This could have the advantage of bringing those who assist the presidents of the western and southern Banks into more frequent contact with the trading desk, thus improving their ability to provide background information for those who may serve as Executive Committee members.

(4) Mr. Woodlief Thomas (or Mr. W. W. Riefler) or a member of the Board staff usually prepares a brief memorandum summarizing the high points of the daily telephone conversations noted in (3) above. These memoranda do a good job of telling the story of the money market and the reserve situation as it appears to the trading desk each morning, and it might be useful if copies of the memoranda could be made available to each member of the Board of Governors and each Reserve Bank president--without in any way delaying transmittal of the memorandum's present circulation to the members of the Executive Committee. These daily reports have the unique advantage of describing the major visible influences affecting possible open market operations, as seen by the trading desk early in each day, and thus help to provide the background to operating decisions that might be reached later in the day.

## II. Improving Other Contacts

In addition to the formal and informal written and telephonic reports discussed above, those who conduct operations for the System Open Market Account

may be able to improve communications with the members of the Federal Open Market Committee through personal contacts. The following paragraphs outline some suggestions looking in this direction.

(1) The officers of the Securities function of the Federal Reserve Bank of New York might visit the other Federal Reserve Banks more frequently; such visits would provide opportunities for face-to-face individual discussions of money market developments and System Account operations. Perhaps a schedule of some kind could be developed so that each Bank president would be visited informally by one of the operating officers of the Securities function of the New York Bank over a certain period of time--possibly some visits could occur at times when the Open Market Committee was meeting in Washington. The suggestion would involve additional travelling for the officers of the function, and would result in added pressures on other officers who would have to share the load of the absentee, but it might be worthwhile in helping to create closer liaison between Committee members and the management of the System Account. Visits by operating officers of the Securities function to the Reserve Banks could be combined with talks on the procedures of the System Open Market Account (or recent operations) to members of the Reserve Bank staffs, or to other groups, at the wish of the President of the Bank concerned.

(2) The possibility might be considered of having presented, at meetings of the Executive Committee and the full Committee, a more complete oral summary of open market operations. Such an oral report would duplicate part of the written report presented at each meeting, but this could be justified if the oral report gave a more intimate picture of events than can be conveyed in a written report.

(3) Attempts have been made to encourage members of the Board of Governors, the Presidents of the other Reserve Banks, and their senior staff

people to visit the Federal Reserve Bank of New York and to go through "a day's work" at the trading desk. There have been a number of such visits, but perhaps more would be desirable. Possibly the Executive Committee might wish to consider establishing a regular schedule under which its members and/or their top staff advisers would visit the trading desk.

(4) It should be emphasized again that members of the Federal Open Market Committee should get in touch with the Manager of the Account, either by telephone or letter, whenever they are not clear as to the reason for current operations or when other questions arise for which the trading desk might be able to supply an answer. Perhaps if the management of the System Open Market Account, through its written reports and personal contacts, succeeds in promoting greater familiarity with open market operations among all the Committee members and Reserve Bank presidents, this will lead naturally to more frequent calls on the Manager of the Account for information.

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This is not, of course, an all-inclusive list of possibilities of improving communication between the Federal Open Market Committee and the management of the System Open Market Account. Perhaps the first result of this memorandum will be to stimulate other suggestions. The eventual result, however, should be that more is done, in line with preferences indicated by the Federal Open Market Committee, to bring each member of the Committee into closer contact with the processes through which Committee policy is executed across the trading desk at the Federal Reserve Bank of New York.