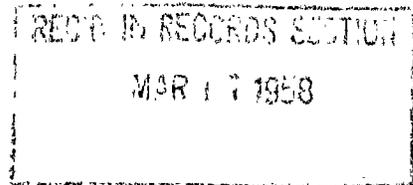


TO: Chairman Martin
FROM: Mr. Riefler



A chronological record of the origin of the Ad Hoc Subcommittee and actions taken from its report follows.

(1) May 7, 1951 Ex. Com. meeting FOMC - Messrs. Martin, Sproul, Eccles, Szymczak, and Williams present.

"Mr. Martin commented on questions he had in his mind as to the effectiveness and extent of System operations in the direction of providing an adequate market for Government securities in carrying out the commitment of the FOMC to maintain an orderly market, and there was a general discussion of the matter."

(2) Full Committee May 17, 1951 - Messrs. Martin, Sproul, Eccles, Evans, Gidney, Gilbert, Norton, Powell, Szymczak, Vardaman, and Williams, present.

"Chairman Martin then suggested that System operations in longer-term issues be carried on in a more aggressive manner than had been followed in the past, that such an operation be undertaken on an experimental basis with a view to probing the market for Government securities to see if there would be developed a more active interest on the part of potential buyers of such securities.

"He also suggested that the Committee authorize him to appoint a committee to consist of himself as chairman and not less than two or more than four other members of the Federal Open Market Committee to make a study of the scope and adequacy of the Government securities market during the coming months with the understanding that the Committee would be authorized to call on outside assistance if that should be considered to be necessary and that it would report to the executive committee and to the full Committee. Chairman Martin emphasized that his suggestion for a study of this type was in no sense a criticism of the operations of the System account. In response to questions, he indicated that there was a need for a broader market for Government securities, that perhaps there would be value in studying the British Government securities market, that the time may come when the Federal Open Market Committee might find it necessary to change the procedure whereby it did business with only a small number of qualified dealers, and that he hoped the study proposed would make some worthwhile suggestions along these and other lines.

-2-

"Several other members of the Committee expressed the view that it would be desirable to have a study such as that proposed by Chairman Martin.

"Thereupon, upon motion duly made and seconded, Chairman Martin was authorized to appoint a committee to make a study of the Government securities market along the lines he suggested."

(3) Executive committee meeting - April 4, 1952 - Messrs. Martin, Sproul, Leach, Powell, and Mills (alternate) present.

"In a discussion of the date for the next meeting of the executive committee, Chairman Martin stated that he hoped there could be a reorganization of the open market operation along lines which he indicated and that he felt this would call for frequent meetings of the executive committee, perhaps as often as weekly, for a period of time. He said that he would be glad to have suggestions from all of the members of the Federal Open Market Committee as to how the function could be handled more effectively, including suggestions for staff organization, relationships of the Federal Open Market Committee to the Board of Governors, and ways in which more people in the Federal Reserve System could be educated as to the conduct of the open market function.

"Following a brief discussion of Chairman Martin's comments, it was understood that the next meeting of the executive committee would be subject to call by the Chairman."

(4) Executive committee meeting April 21, 1952 - Messrs. Martin, Sproul, Leach, Powell, and Vardaman present. Also Messrs. Mills, Robertson, and Szymczak, members of FOMC attended this meeting of executive committee.

"Chairman Martin referred to the action of the Federal Open Market Committee at its meeting on May 17, 1951, authorizing him to appoint a committee to make a study of the Government securities market along lines he suggested at that meeting. In this connection, there was distributed an outline of a suggested ad hoc subcommittee of the Open Market Committee to study the Government securities market with special reference to the organization and operation of the open market account. The outline contained subheads as to (1) organization of subcommittee, including appointment of a consultant, (2) objectives of the inquiry, and (3) method of operation. Chairman Martin stated that he was sorry that the outline had not been distributed before this meeting but that it had not been completed until after

-3-

he left Washington last week and that he had not had a chance to go over the present draft until this morning. He added that the outline represented his general views as to how the study might be made, that he hoped the committee could start its work by May 15, and that he felt it would be desirable to have a sufficient number of members to permit the committee to carry forward its work in the hope that it would be able to submit a report in around three months after the study was started.

"In connection with the employment of a consultant to work with the subcommittee, Chairman Martin stated that it was essential that the qualifications of such a consultant include (1) broad financial understanding, particularly with respect to credit control functions of the Reserve Banks and of open market operations, (2) intimate knowledge of the Government securities market, and (3) reputation for integrity, impartiality, and objectivity. The services of the consultant might be needed on a full-time basis for three months or longer, Chairman Martin stated, and on the basis of exploratory conversations he had had, he felt that Mr. Robert H. Craft, Vice President and Treasurer of Guaranty Trust Company of New York, would meet the qualifications outlined, that he would be interested in such a study, and that he might be available for the work. In addition to these qualifications, Chairman Martin noted that Mr. Craft currently was chairman of the Governmental Securities Committee of the Investment Bankers Association of America. He added that he would be glad to have any other suggestions as to a consultant as well as suggestions which any of the members of the committee wished to make concerning the organization of the subcommittee, the objectives of the inquiry, or its method of operation.

"Mr. Evans joined the meeting at this point.

"Messrs. Sproul and Rouse commented favorably regarding Mr. Craft and none of the members of the Committee indicated they would oppose his appointment as a consultant if it developed that he would be available.

"With respect to the method of payment of the consultant, Chairman Martin suggested that such consultant might be employed on a per diem basis. It was also suggested that he might be engaged with the understanding that his present employer would continue to pay his salary without reimbursement, or that the Board of Governors of the Federal Reserve System might reimburse the employer for such salary during the period while the consultant was serving with the subcommittee. Under any of the arrangements, it was assumed that reimbursement for necessary travel costs would be made by the Board of Governors.

"There was a general discussion of these and other arrangements that might be made for employment of a consultant during which Mr. Vardaman suggested that Chairman Martin be authorized to negotiate for the services of Mr. Craft with a view to determining whether he would be available and, if so, to conclude the arrangements along any of the lines discussed at this meeting without further reference to the committee.

-4-

"Upon motion duly made and seconded, and by unanimous vote, Mr. Vardaman's suggestion was approved.

"In response to a question from Mr. Sproul, Chairman Martin stated that the outline for the study of the Government securities market presented at this meeting was tentative and that he would appreciate receiving any suggestions that any of the members of the committee might wish to make concerning any aspects of the study. In this connection, there was agreement that such suggestions should be submitted to Chairman Martin or to the Secretary as promptly as possible, that completion of the final outline be deferred until after a consultant had been employed in order to have the benefit of his suggestions concerning the procedure and details of the study, and that when a revised draft of outline had been completed it would be submitted to the executive committee, if possible at its next meeting."

(5) Executive committee meeting May 9, 1952 - Messrs/ Martin, Leach, Powell, Mills (alternate), and Young (alternate) present. Messrs. Evans, Robertson, and Szymczak, members of FOMC, also attended this meeting of executive committee:

"Chairman Martin stated that in accordance with the understanding at the meeting on April 21 arrangements had been made for the employment of Mr. Robert H. Craft, Vice President and Treasurer of Guaranty Trust Company of New York, as a consultant in connection with the study of the Government securities market to be undertaken by an ad hoc subcommittee of the Open Market Committee. He went on to say that at a meeting yesterday the Board of Governors approved an arrangement under which it would reimburse Mr. Craft for travel costs during a period of approximately four months beginning May 19, 1952, while he served as Technical Consultant to the Federal Open Market Committee. In the event Mr. Craft's present employer should wish to receive reimbursement for Mr. Craft's salary and retirement system contributions during the period of his service, it was expected that reimbursement for those sums would be arranged for in the same manner as travel expenses. Chairman Martin stated that Mr. Kleitz, President of Guaranty Trust Company, had assured him in a letter dated May 1, 1952, that Mr. Craft would be relieved entirely of his responsibilities at the Guaranty Trust Company during the entire period in which he served as consultant in connection with the Federal Open Market Committee study.

"Chairman Martin stated that for membership on the ad hoc committee, in addition to himself, he would appoint Mr. Malcolm Bryan and Mr. ~~that~~ Abbot L. Mills, Jr., unless there were objection to those appointments.

"None of the members of the Federal Open Market Committee who were present indicated objection to the appointments of Messrs. Bryan and Mills.

-5-

"At Chairman Martin's request, Mr. Riefler reviewed briefly suggestions that had been received in connection with the outline of the study to be made, stating that, in accordance with the understanding at the meeting on April 21, copies of the outline had been sent to all members of the Federal Open Market Committee and to the Reserve Bank Presidents who were not now members of the Committee. Their suggestions fell primarily into three categories, Mr. Riefler said, those relating to factors governing the demand for public securities, the handling of public trust funds, and the handling of investments for foreign account by the Federal Reserve Bank of New York. Mr. Riefler added that a copy of the outline and the suggestions submitted had been turned over to Mr. Craft, and that it was anticipated that he would have his suggestions for changes in the outline when he commenced his service as consultant about May 19.

"Chairman Martin said that he felt it would be desirable to have another meeting of the executive committee shortly after Mr. Craft commenced his work, and it was agreed that the next meeting of the committee would be set for Friday, May 23, 1952, at 10:30 a.m.

"Chairman Martin stated that in connection with the study to be made by the committee it would seem desirable for Mr. Craft to have access to all records of the Federal Open Market Committee including any policy decisions during the period of his service. This would include the minutes, files, and observance of operations of the System open market account as well as freedom to attend meetings of the committee if that seemed desirable. He stated that while he had complete confidence in Mr. Craft's discretion and integrity he was raising the question at this meeting in case any member of the committee felt that Mr. Craft's access to open market material should be limited.

"All members of the committee who were present agreed that Mr. Craft should be given complete access to open market data during the period of his service in connection with the study."

(6) Executive committee May 23, 1952 - Same attendance as at May 9 meeting. Also Mr. Robert H. Craft, Technical Consultant attended this meeting.

See pages 2-4 for Mr. Craft's report and discussion.

-6-

(7) Full Committee March 4, 1953 - Messrs. Martin, Sproul, Erickson, Evans, Johns, Mills, Powell, Robertson, Szymczak, Vardaman, and Young present.

Report of Ad Hoc Subcommittee discussed and acted upon, pages 22-50. Actions taken at this meeting were by unanimous vote and are summarized in the formal letter of advice to the New York Bank dated April 8, 1953. (Copy attached.)

(8) Full Committee June 11, 1953 - Messrs. Martin, Sproul, Erickson, Evans, Fulton, Johns, Mills, Powell, and Robertson present.

At this meeting the Committee approved a motion by Mr. Sproul that the understandings relating to confining operations for the System account to the short end of the market and to refraining from certain purchases during periods of Treasury financings, as approved at the meeting of the Committee on March 4-5, 1953, be rescinded, with the understanding that the executive committee would be free to determine how operations should be ~~as~~ carried on in the responsibilities mentioned, in the light of the current general credit policy of the Federal Open Market Committee.

Votes for motion

Sproul
Erickson
Fulton
Johns
Powell

Votes against motion

Martin
Evans
Mills
Robertson

(9) Full Committee September 24, 1953 - Messrs. Martin, Sproul, Erickson, Evans, Fulton, Johns, Mills, Powell, Robertson, Szymczak, and Vardaman present.

At this meeting Mr. Mills moved that the Federal Open Market Committee take the position that operations for the System account in the open market be confined to short-term securities (except in the correction of disorderly markets) and that during a period of Treasury financing there be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; and that these policies be followed until such time as they may be superseded or modified by further action of the FOMC.

Votes for motion

Mr. Martin
Mr. Erickson
Mr. Evans Mr. Szymczak
Mr. Fulton Mr. Vardaman
Mr. Johns
Mr. Mills
Mr. Robertson

Votes against

Mr. Sproul
Mr. Powell

-7-

December 15, 1953 - Full Committee - Mr. Sproul moved that the last clause of the action taken at the meeting on September 24, 1953 (quoted above) be amended to read "and that these policies be followed until the next meeting of the FOMC."

Votes against motion

Mr. Martin
Mr. Evans
Mr. Fulton
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Szymczak
Mr. Vardaman

Votes for motion

Mr. Sproul
Mr. Erickson

Also at this meeting, Mr. Robertson moved that transactions for for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets) and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio.

Votes for

Mr. Martin
Mr. Evans
Mr. Fulton
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Szymczak
Mr. Vardaman

Votes against

Mr. Sproul
Mr. Erickson

March

(10) Full Committee ~~May~~ 2, 1955 (see pages 52-82)

Following motion was adopted:

"As a matter of formal status, it is the sense of the FOMC that the Manager of the System Open Market Account be made more directly responsible to the Open Market Committee as a whole. Accordingly, the FOMC authorizes the appointment of a committee of three members of the Board of Governors and three Presidents of the Federal Reserve Banks to bring back concrete proposals for perfecting the structural and operating organization that will best implement the policies of the FOMC."

-8-

Votes for motion

Mr. Martin
 Mr. Balderston
 Mr. Mills
 Mr. Robertson
 Mr. Szymczak
 Mr. Vardaman

Votes against motion

Mr. Sproul
 Mr. Earhart
 Mr. Fulton
 Mr. Irons
 Mr. Leach

Presidents of Reserve Banks not currently serving as members of the Committee indicated their views on this motion as follows.

Yes

Mr. Johns
 Mr. Leedy
 Mr. Young
 Mr. Bryan

No

Mr. Erickson
 Mr. Williams
 Mr. Powell

On May 4, 1955, Chairman Martin sent word to the members and alternate members of the Committee and the other Reserve Bank Presidents that the members of the Subcommittee were Messrs. Balderston, Irons, Leach, Martin, Robertson, and Sproul, and that a meeting had been called for the afternoon of Tuesday, May 10, 1955.

(12) (11) Full Committee March 6, 1956 - Messrs. Martin, Sproul, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, Vardaman, and Fulton.

In connection with the approval of Mr. Rouse as Manager of the System Open Market Account, Chairman Martin stated that he was voting for approval of Mr. Rouse although he disapproved of the procedure now followed by the Committee under which the board of directors of the agent Federal Reserve Bank selects the manager. There were no personalities involved in this feeling, the Chairman said, but he referred to the action of the Committee in authorizing appointment of a special committee at the meeting on March 2, 1955 to study and bring back to the Committee concrete proposals for perfecting the structural and operating organization that would best implement the policies of the FOMC. This committee he said, had met with the Board of Directors of the New York Bank last November but he as Chairman of the committee had not called a meeting

-9-

since that time, partly at least because of pressure of other problems. Chairman Martin said that he ~~was~~ intended to continue the committee appointed pursuant to that authorization until it had a report to submit to the full Committee and in this connection, he said that he proposed to have a meeting of the committee on the day on which the next meeting of the FOMC took place.

(12) Full Committee April 17, 1956 - Same attendance as at March 6, 1956 meeting. At the end of the minutes of the April 17 meeting the following Secretary's note appears:

"In connection with the discussion of certain continuing operating policies to be held on April 18, 1956, Chairman Martin distributed under date of April 17, 1956, a memorandum intended to make clear his personal position on the basic points raised in Mr. Sproul's memorandum of March 21, 1956, concerning this subject. Subsequent to the executive session on April 18, the Chairman reported to the Secretary that the subject had been discussed and that the discussion had not resulted in a decision to change the existing statements of policy."

(11) (13) Full Committee January 8, 1957
Mr. ~~Martinez~~ suggestion for study of converting the increment in Mill's System Open Market Account during 1956 into longer-term securities.

January 28, 1957

Chairman Martin appoints Special Committee (Messrs. Martin, Hayes, Allen, Balderston, Erickson, and Szymczak) to study Mills' suggestion.

March 5, 1957 Full Committee

(12) Messrs. Martin, Hayes, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, Vardaman, and Williams.

"The Chairman stated that the Special Committee appointed at the meeting on January 28, 1957 as a result of the suggestion made by Mr. Mills at the January 8 meeting held its first meeting on February 18, 1957. That committee had decided, subject to the approval of the full Committee, that, in addition to studying the matter of converting the increment in the System open market account during the year 1956 into longer-term securities, it would start a review of all of the operating procedures that had been presented in the report of the Ad Hoc Subcommittee, as discussed at the meeting on March 4 and 5, 1953, with the exception of the matters relating to the housekeeping aspects of the Subcommittee's report. Chairman

-10-

Martin said that it was understood that whatever time was necessary would be taken to consider the operating procedures currently in effect. The Federal Open Market Committee included two new members and it would not wish to take an action that appeared to prejudge the current operating procedures, he said. With this understanding and pending completion of the review referred to, the Special Committee recommended unanimously to the full Committee the continuation without change of the operating policies now in effect.

"In response to a question from Mr. Bryan, the Chairman said that it would be appropriate and helpful for any member of the Committee or any other Reserve Bank President to express in writing or orally views that he might have with respect to these continuing operating policies or any other matters he might feel should be brought before the Committee.

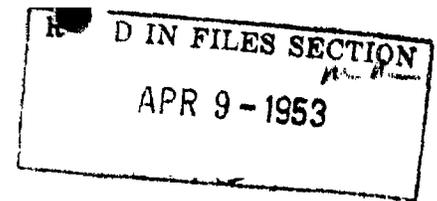
"Thereupon, upon motion duly made and seconded, and by unanimous vote, the three statements set forth above were renewed without change, pending completion and submission of a report by the Special Committee."

FILED IN RECORDS SECTION

MAR 17 1958

Attachment for Topic 12 of FOMC Agenda, March 4-5, 1958.

At the meeting of the Federal Open Market Committee on January 28, 1957, a Special Committee (Messrs. Martin, Hayes, Allen, Balderston, Erickson, and Szymczak) was appointed to study the suggestion Mr. Mills had made at the meeting on January 8, 1957, that the increment in the System Open Market Account during the year 1956 be converted into longer-term securities. At the meeting on March 5, 1957, it was agreed that the Special Committee would start a review of all of the operating procedures that had been presented in the report of the Ad Hoc Subcommittee, as discussed at the meeting on March 4 and 5, 1953, with the exception of the matters relating to the housekeeping aspects of the Subcommittee's report. At the meeting on January 7, 1958, Chairman Martin reported that thus far the Special Committee had made very little progress, and he suggested that there should be a complete discussion of the problems the Special Committee had been studying at the time of the meeting to be held on March 4, 1958 when the new members elected by the Federal Reserve Banks for the year beginning March 1, 1958, would assume their duties. It was understood that this procedure would be followed and that the afternoon of March 4, 1958 and as much of Wednesday, March 5, 1958 as might be necessary would be devoted to meetings of the full Committee for the purpose of discussing the matters contained in the Ad Hoc Subcommittee report and the current operating procedures and techniques for the System Open Market Account.



April 8, 1953

CONFIDENTIAL

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Sproul:

This letter is written to give formal advice, for the guidance of the Federal Reserve Bank of New York in its capacity as the bank selected to execute transactions for the System Open Market Account, of the several actions taken by the Federal Open Market Committee at its meeting on March 4 and 5, 1953, with respect to the recommendations in the report of the ad hoc subcommittee on the Government securities market. This letter refers to all actions of the Committee in this connection, unless such action was merely to defer the topic or to direct that it be further studied, or unless it related to matters other than those concerned with transactions for the System account such as the understanding regarding relations with the Treasury, the study of the re-establishment of a call money post, or the revision in the weekly statement of condition of the Federal Reserve Banks.

1. It was agreed that, under present conditions, operations for the System account should be confined to short-term securities (not including correction of disorderly markets).
2. It was agreed that it is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).
3. It was agreed that the general directive of the Federal Open Market Committee relating to transactions for the System open market account should provide henceforth that such transactions should be with the view, among other things, "to correcting a disorderly situation in the Government securities market". This change was reflected in my wire to you on March 5, 1953, transmitting to the Federal Reserve Bank of New York the directive approved at the meeting of the executive committee that day. The full Committee also agreed that intervention to correct such a

-2-

situation would be initiated only upon the affirmative vote of the executive committee after the existence of a situation seeming to require correction had come to its attention through notice from the manager of the account or otherwise, but it was recognized that in the event of an emergency, such as an international crisis, it might not be possible to canvass all members of the executive committee before initiating such intervention.

4. It was agreed that, pending further study and further action by the Committee, the Committee should refrain during a period of Treasury financing from purchasing (1) any maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) any outstanding issues of comparable maturity to those being offered for exchange.
5. It was agreed that the system of rigid qualifications for dealers with whom the open market account will transact business be abandoned with the understanding that henceforth transactions would be carried on with persons or firms actually engaged in the business of dealing in Government securities, and that prices would be the main criterion for such transactions. As a result of this action, the statement of terms approved at the meeting on February 29, 1944, and renewed from time to time since, and all subsequent instructions pursuant thereto, are rescinded.
6. It was agreed that having abandoned the technique of reluctant buying, which was used at times during the period of supported markets, it should not be resumed without further consideration by the executive committee of the Federal Open Market Committee.
7. It was agreed that agency transactions be abandoned and that the account conduct its transactions with dealers as principals on a net basis, with the understanding that, if it seemed desirable to do so at some future time, the executive committee would consider a proposal to revert to an agency basis. (This action superseded the action of the executive committee at meetings on June 10, 1946 and on May 20, 1948 to the extent that those actions referred to transactions with dealers on an agency basis.)
8. It was agreed that, if rights were acquired during Treasury refundings, they be purchased from dealers without regard to whether or not they come from the dealers' positions. (While the Committee was in full agreement with the spirit of this recommendation, it was noted that it was inoperative

-3-

at the present time in view of the action taken under No. 4, above, agreeing that, pending further study and further action by the Committee, it would refrain from purchasing rights on maturing issues during periods of Treasury financings.)

9. It was agreed that there should be no refusal to buy bills acquired by dealers on a cash basis.
10. It was agreed that non-bank dealers be informed adequately in advance when repurchase facilities will be made available, it being understood that the adequacy of the advance notice would depend on the availability of information indicating to the manager of the System open market account the need for such facilities.
11. It was agreed that the individual morning dealer conference is not required, it being understood that if any dealers wished to continue the morning conference, it would be on the dealers' initiative.
12. It was agreed that information solicited by the trading desk from dealers be so restricted as to eliminate the possibility of identification, directly or by inference, of individual customers.
13. It was agreed that, if dealers were willing to furnish reports on individual dealer positions and activity on a voluntary basis, there would be no objection to continuing to collect the information in that manner, it being understood that if the reports received on a voluntary basis did not seem to provide satisfactory aggregates, further study would be given by the executive committee to the question of the reporting procedure.
14. It was agreed that the trading desk should avoid asking dealers to report transactions currently during the trading day in sufficient detail to permit the computation of current individual dealer transactions sheets.

Very truly yours,

Winfield W. Riefler, Secretary,
Federal Open Market Committee.

MS:me