

IN RECORDS SECTION  
MAY 9 1963



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

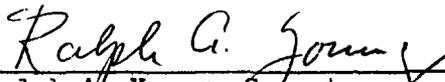
May 8, 1963.

CONFIDENTIAL (FR)

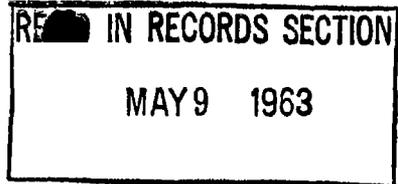
TO: Federal Open Market Committee

FROM: Mr. Young

Attached for your information is a copy of the letter from the Bank of England, referred to by Mr. Coombs in his report to the Committee May 7, concerning the investment of System sterling holdings in U. K. commercial bills.

  
Ralph A. Young, Secretary,  
Federal Open Market Committee.

Attachment



BANK OF ENGLAND

May 2, 1963.

Dear Coombs:

Roy Bridge tells me that you spoke to him on the telephone a few days ago about the possibilities of the investment of funds which might be held here in your name for the Reserve System, having in mind the fact that prevailing legislation does not permit the System to hold U. K. Treasury bills. You asked in particular what were the prospects of your eventually acquiring commercial bills, which would be a permissible investment from the point of view of your existing legislation.

The market situation here is, I believe, very broadly similar to that in New York, that is to say, that while Treasury bills are readily available for any maturity up to three months, the over-all supply of commercial bills is limited and at the same time commercial bills are keenly sought. It would not be practicable, therefore, for us to undertake to invest in suitable commercial bills the sterling we received for your account simply because we could not be sure that the necessary bills would in fact be obtainable. We could probably obtain some bills for you given time, but we could hold out no hope that you could regard commercial bills as an immediately available form of investment, nor should we be confident of being able to obtain for you more than a relatively modest amount in total, perhaps £3 million or so.

We would guarantee any commercial bills we did buy for your account and would charge 1/8 per cent for this service; in addition we would charge 1/32 per cent for commission. Prime bank bills can be bought currently at 3-3/4 per cent per annum and taking these charges into account you would earn a net rate of 3-19/32 per cent per annum.

Yours sincerely,

(signed) L. A. Whittome

L. A. Whittome,  
Deputy Chief Cashier

Mr. C. A. Coombs.