

A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, February 29, 1944, at 9:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Ransom
Mr. Evans
Mr. Paddock

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Rouse, Manager of the System Open Market Account
Messrs. Piser and Kennedy, Chief and Assistant Chief, respectively, of the Government Securities Section, Division of Research and Statistics of the Board of Governors.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on October 18, 1943, were approved.

As reported currently to the members of the executive committee by the Federal Reserve Bank of New York, it had been necessary following the last meeting of the executive committee to purchase substantial amounts of Government securities for the System open market account pursuant to the System's open market policy, and in order that the New York Bank might have adequate authority for this purpose the members of the executive committee, on November 26, 1943, approved

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an increase from \$750,000,000 to \$1,250,000,000 in the limitation contained in the direction issued at the meeting of the executive committee on October 18, 1943, covering transactions in the System account.

Reference was also made at this meeting to the understanding reached at the last meeting of the Federal Open Market Committee that, in the event the arrangement worked out for the direct replacement of maturing bills provided for the transfer of such bills in the option accounts to the System account and the holding of bills taken in replacement in the System account, the limitations contained in the direction of the full Committee to the executive committee would not apply to such transfers or replacements. It was stated that the Treasury was not favorable to the direct replacement of bills and that an arrangement was put into effect by the Treasury under which the New York Bank, as fiscal agent, would use its best efforts to see that sufficient tenders for bills were forthcoming from the market each week to insure the sale of bills offered by the Treasury. Under this procedure the volume of purchases by the New York Bank in its option account were very large, with a resulting disparity in the Bank's reserve ratio, and, after obtaining the approval of the members of the Federal Open Market Committee, an arrangement was worked out by the New York Bank with dealers under which they would offer bills to the Bank at the posted rate without a repurchase option and the

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Bank would purchase them for the System account. These increased purchases would have quickly exhausted the authority given by the full Committee to the executive committee to execute transactions in the System account. In these circumstances, the members of the full Committee on December 1, 1943, approved an amendment to the direction issued to the executive committee at the meeting of the full Committee on October 18, 1943, so as to exclude from the limitation on the authority of the executive committee to increase or decrease the amount of securities held in the System account bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum. Following this action, the members of the executive committee approved a similar amendment to the direction issued at the meeting of the executive committee on October 18, 1943, to the Federal Reserve Bank of New York.

Upon motion duly made and seconded, and by unanimous vote, the actions taken by the members of the executive committee on November 26 and December 1, 1943, were approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period October 18, 1943, to February 28, 1944, inclusive, as reported daily by the Federal Reserve Bank of New York to the members of the executive committee were approved, ratified, and confirmed.

In accordance with the request made of Mr. Rouse at the last meeting of the executive committee, he prepared under date of February

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1, 1944, a memorandum submitting a report and recommendations regarding the relationships between the Federal Reserve Bank of New York and dealers in United States Government securities. Copies of this report were furnished to the members of the executive committee and, at an informal conference of members of the executive committee on February 21, 1944, consideration was given to Mr. Rouse's report as well as to a memorandum dated February 21 from Messrs. Wyatt, Piser, and Kennedy to which was attached a statement of suggested terms upon which the Federal Reserve Bank of New York would deal with brokers and dealers in United States Government securities on behalf of the System open market account. As a result of the discussions at that conference and subsequently, a revised statement of terms was prepared under date of February 28, 1944, copies of which were distributed for consideration at this meeting.

The revised statement, which was read by Mr. Rouse, contemplated that the instructions to be given by the executive committee to the Federal Reserve Bank in connection with the proposed terms would include a direction that, in any case in which it was concluded that a broker or dealer had willfully violated or failed to perform any of the proposed terms or conditions, the Bank would decline to transact any further business with such broker or dealer unless the Bank was satisfied that the broker or dealer had taken appropriate steps to correct the default and to prevent the occurrence of similar defaults

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in the future. In the ensuing discussion it was suggested that it would be desirable to include in the statement of terms which would be given to qualifying dealers a provision that, in the event a broker or dealer failed to meet the qualifications set forth in the statement or willfully violated or failed to perform any of the terms and conditions contained in the statement, the Bank would decline to transact any further business with such broker or dealer.

Chairman Eccles suggested that it should also be understood that in the event a broker or dealer were disqualified because of violation of the statement of terms he should not again be qualified without the approval of the executive committee.

At the conclusion of the discussion, upon motion duly made and seconded and by unanimous vote, the statement of terms was approved as follows as a recommendation of the executive committee to the full Committee, with the understanding that the full Committee would be requested, in the event of the adoption of the suggested terms, to authorize the executive committee to (1) make such minor changes in the statement as appeared to be desirable following discussion at the meeting of the full Committee, (2) make the terms effective at such time as in the judgment of the executive committee appeared desirable, and (3) issue such instructions to the New York Bank in connection therewith as might be required:

*The Federal Open Market Committee has directed the Federal Reserve Bank of New York to transact business in United States Government securities on behalf of the open market account of the Federal Reserve System only with reputable brokers and dealers in such securities who qualify in the manner set forth below.

"A. Qualifications.

"In determining whether a person (individual, partnership or corporation, including a bank) is a qualified broker or dealer with whom the Federal Reserve System will transact business, and the extent to which business will be transacted with such person, the following factors will be taken into consideration:

- (a) Integrity, knowledge, and capacity and experience of management;
- (b) Observance of high standards of commercial honor, and just and equitable principles of trade;
- (c) Willingness to make markets (over-the-counter) under all ordinary conditions;
- (d) The volume and scope of business and the contacts such business provides;
- (e) Financial condition and capital at risk of business;
- (f) The reliance that can be placed on such broker or dealer to cooperate with the Bank and the Federal Open Market Committee in maintaining an orderly market for Government securities; to refrain from making any recommendations or statements or engaging in any activity which would encourage or stimulate undue activity in the market for Government securities; and to refrain from disclosing any confidential information which he obtains from the Bank or through his transactions with the Bank.

"B. Agreement.

"In order to qualify further as a broker or dealer recognized as eligible to transact business with the Federal Reserve Bank of New York acting on behalf of the open market account of the Federal Reserve System (hereinafter referred to in this capacity as 'the Bank'), each such person must agree in writing to comply with the following terms and conditions:

1. He will promptly furnish the Bank with a statement showing as of the close of business each business day:
 - (a) The total amount of money borrowed (directly or indirectly);
 - (b) The par value of all Government securities borrowed;

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- (c) His position, both long and short, in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank);
 - (d) The volume of transactions during the day in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank); and
 - (e) Such other statistical data as in the opinion of the Bank will aid in the execution of transactions for the System open market account.
2. At or before the completion of each transaction with the Bank, he will furnish the Bank with a written notification disclosing whether he is acting as a broker for the Bank, as a dealer for his own account, as a broker for some other person, or as a broker for both the Bank and some other person. In the absence of a special agreement to the contrary with the Bank with respect to a particular transaction, he will not act as broker for any other person in connection with any transaction with the Bank.
 3. In the absence of special arrangements with the Bank, delivery of securities will be made at the office of the Bank before 2:15 p.m. on the next full business day following the day of the contract and all payments by the broker or dealer will be in immediately available funds.
 4. He will furnish the Bank not less frequently than once during each calendar year with a report of his financial condition as of a date not more than 45 days prior to the delivery of the report to the Bank in form acceptable to the Bank and prepared or certified by a public accountant acceptable to the Bank and upon the request of the Bank he will furnish a statement of condition as of a stated recent date as shown by his books.
 5. Unless the Bank shall have informed him of the Bank's desire to purchase or sell a particular issue of Government securities, he will not solicit from any other person offerings of or

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"bids for any issue of Government securities for the purpose of placing himself in a position to offer to sell to or buy from the Bank securities of such issue.

"In any case in which the Bank has concluded that a recognized broker or dealer no longer meets the qualifications set forth above or has willfully violated or failed to perform any of the terms and conditions set forth in the agreement, the Bank shall decline to transact any further business with such broker or dealer."

Thereupon the meeting adjourned with the understanding that the executive committee would meet again following the meeting of the Federal Open Market Committee to be held tomorrow.

Chester Morrill
Secretary.

Approved:

W. C. C. C.
Chairman.