

TWENTY-NINTH
ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1942

MEETING ON DECEMBER 14, 1942

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Evans, Mr. Williams, Mr. Gilbert, Mr. Young, Mr. Leedy.

1. Authority to Increase the Amount of Securities in System Account.

On October 9, 1942, all members of the Federal Open Market Committee, at the request of the members of the executive committee, approved an increase from \$1,000,000,000 to \$2,500,000,000 in the limitation on the authority of the executive committee to increase or decrease the amount of securities held in the System open market account. In view of the rapid increase in the volume of purchases that were being made for the purpose of supplying reserve funds to the banks of the country, a further increase in the limitation to \$3,000,000,000 was approved by all the members of the full Committee on December 9, 1942.

At this meeting of the full Committee, upon motion duly made and seconded, and by unanimous vote, these actions of the members of the Committee were approved, ratified, and confirmed.

In connection with the October and December Treasury financing operations, it was agreed that the System should purchase increased amounts of securities for the purpose primarily of furnishing banks with funds in such amounts as would provide substantial support for the new financing in addition to maintaining the market at approximately existing levels. The actions of the members of the Committee were taken to accomplish these purposes. As of the close of business on December 12, 1942, total securities held by the Federal Reserve Banks amounted to \$5,601,118,000, an increase of over \$2,100,000,000 since the meeting of the Committee on September 28, 1942.

2. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction to the executive committee was approved by unanimous vote:

"That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date (other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury and Treasury bills purchased pursuant to the directions of the Federal Open Market Committee issued under dates of April 30, August 3, and September 28, 1942) shall not be increased or decreased by more than \$1,000,000,000.

"That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the pur-

chase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed \$1,000,000,000."

This direction was the same as the direction issued at the meeting of the Federal Open Market Committee on September 28, 1942, except that the amount of the limitation specified in the direction to the executive committee to arrange for the purchase of special short-term certificates of indebtedness for the temporary accommodation of the Treasury was increased and this direction was placed in a separate paragraph.

The action of the Committee in approving the direction was taken in the light of the program which had been adopted by the Treasury for the December financing campaign, which had been the subject of several discussions with representatives of the Treasury, and for substantially the same reasons as prompted the approval of the direction at the meeting on September 28, 1942.

The separate direction relating to the purchase of special short-term certificates for the temporary accommodation of the Treasury was approved for the purpose of meeting any temporary needs of the Treasury over the year-end and in recognition of the procedure followed by the Treasury in drawing upon its balances with the Federal Reserve Banks before and during Treasury financing operations.