

THIRTIETH
ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1943

MEETING ON MARCH 2, 1943

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Evans; Mr. Paddock; Mr. Fleming; Mr. McLarin; Mr. Peyton (alternate for Mr. Day).

1. Purchase by Federal Reserve Banks of Treasury Bills at Posted Discount Rate.

Upon motion duly made and seconded, the following direction to the Federal Reserve Banks was approved by unanimous vote, with the understanding that resales of Treasury bills held under option would be for immediate delivery when so requested by the holder:

"Until otherwise directed by the Federal Open Market Committee, the twelve Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of $\frac{3}{8}$ per cent per annum, any such purchases, if desired by the seller, to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased outright are to be purchased for the System open market account. All bills purchased under option to repurchase are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all such purchases are to be made to the Manager of the System open market account."

Under the law, the Federal Reserve Bank members of the Federal Open Market Committee are elected annually for terms beginning March 1 of each year. This was the first meeting of the new Committee, and the above direction, which was in the same form as the direction issued by the Federal Open Market Committee on September 28, 1942, was issued for the purpose of renewing the direction given by the old Committee and for substantially the same reasons.

2. Replacement of Maturing Securities.

Upon motion duly made and seconded, it was understood that the executive committee would undertake to arrange with the Treasury for an amendment to the terms under which the various issues of Government securities were offered so as to permit full allotment to the System of securities issued to refund maturing direct obligations, to the extent that replacement of such securities held in the System account appeared to the executive committee to be desirable.

On this action Messrs. Eccles, Szymczak, McKee, Ransom, Evans, Paddock, Fleming, McLarin, and Peyton voted "aye" and Mr. Sproul voted "no."

This action constituted a renewal of the understanding reached at the meeting of the Committee on January 26, 1943. Since that meeting the problem of direct replacement of Treasury bills had not been an urgent matter and, therefore, no decision had been made with respect to it. However, it continued to be the majority view, for the reasons stated in connection with the earlier action, that the proposed arrangement should be put into effect so that it could be used to the extent that developments made such action desirable.

3. Authority to Effect Transactions in System Account.

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

"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 September 28, 1942, and March 2, 1943) shall not be increased or decreased by more than 1.5 billion dollars.

"That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase 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 1.5 billion dollars."

This direction was in the same form, and was approved for substantially the same reasons, as the direction adopted at the previous meeting of the Federal Open Market Committee except that the limitation on the authority of the executive committee to increase or decrease the amount of securities in the System account and to purchase short-term certificates for the temporary accommodation of the Treasury was increased from 1 billion dollars to 1.5 billion in each case. This action was considered appropriate on the basis of discussions of plans for the Second War Loan Drive, which it was contemplated would take place in April, as well as in the light of the possibility that the bill pending before Congress, which would remove the requirement that reserves be maintained against war loan deposits, might not be approved before the April drive, in which event the System might be called upon to purchase very substantial amounts of securities before and during the drive for the purpose of supplying banks with reserve funds. There was agreement that, in these circumstances, and in view of the decline that had taken place in excess reserves of member banks, higher limitations should be set on the authority of the executive committee.

MEETING ON MAY 15, 1943

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Paddock; Mr. Fleming; Mr. McLarin; Mr. Day.

1. Purchase by Federal Reserve Banks of Treasury Bills at Posted Discount Rate.

Upon motion duly made and seconded, it was agreed unanimously that, without changing the direction issued at the

meeting of the Federal Open Market Committee on March 2, 1943, with respect to the purchase by the Federal Reserve Banks of Treasury bills, it would be understood that the Reserve Banks would treat all purchases pursuant to this direction as being subject to the condition that, upon request of the seller before the maturity of the bills, the Reserve Bank would sell to him Treasury bills of like amount and maturity at the discount rate of $\frac{3}{8}$ per cent per annum.

Under the direction of March 2, 1943, bills purchased outright were for the System open market account and bills purchased subject to the right of repurchase were held by the purchasing Federal Reserve Bank. The suggestion was made at this meeting that it would be helpful from an accounting and operating standpoint if the Federal Reserve Banks were instructed to hold in their own accounts all bills purchased under the direction. It was agreed that this could be accomplished most effectively by treating all such bills as being subject to the right of repurchase and holding them at the purchasing Federal Reserve Banks in accordance with the policy of having the bills available for immediate delivery if desired in the event of their repurchase.

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 September 28, 1942, and March 2, 1943) shall not be increased or decreased by more than 1 billion dollars.

"That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase 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 1.5 billion dollars."

Except for the limitation as to amount at the end of the first paragraph, the direction was in the same form as the directions issued at the meetings of the Federal Open Market Committee earlier this year and was approved for substantially the same reasons. The limitation on the authority of the executive committee to increase or decrease the amount of securities in the account was reduced from 1.5 billion dollars to 1 billion for the reason that

it was anticipated that another meeting of the full Committee would be held during the latter part of June and that the lower limitation would be adequate to enable the executive committee to meet the situation during the intervening period.

MEETING ON JUNE 28, 1943

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Paddock; Mr. Fleming; Mr. McLarin; Mr. Day.

1. Purchase by Federal Reserve Banks of Treasury Bills at Posted Discount Rate.

Upon motion duly made and seconded, the following direction was approved by unanimous vote, with the understanding that resales of Treasury bills held under option would be for immediate delivery when so requested by the holder:

"Until otherwise directed by the Federal Open Market Committee, the twelve Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of $\frac{3}{8}$ per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all such purchases are to be made to the Manager of the System open market account."

This direction, which superseded the direction issued by the Federal Open Market Committee on March 2, 1943, represented no change in policy and was for the purpose of conforming the earlier direction to the understanding reached at the meeting of the Federal Open Market Committee on May 15, 1943, that the Federal Reserve Banks would treat all purchases made pursuant to the direction as being subject to the right on the part of the seller to repurchase the bills.

2. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction 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 March 2 and June 28, 1943) shall not be increased or decreased by more than 1.5 billion dollars.