

THIRTY-FIRST

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1944

## RECORD OF POLICY ACTIONS FEDERAL OPEN MARKET COMMITTEE

MEETING ON FEBRUARY 29, 1944

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. Peyton (alternate for Mr. Day).

### 1. Purchase of Treasury Bills for System Account.

As stated in the open market policy record covering the meeting of the Federal Open Market Committee on October 18, 1943, the Treasury, in lieu of an arrangement providing for the direct replacement of maturing Treasury bills held in the System account, requested the Federal Reserve Bank of New York as fiscal agent of the United States to use its best efforts to see that sufficient tenders for Treasury bills were forthcoming from the market each week to insure the sale of whatever amount of bills was offered by the Treasury. Under this procedure the volume of purchases of bills from the dealers by the Federal Reserve Bank of New York in its option account became very large. To make it possible for all of the Federal Reserve Banks to participate in these purchases, an arrangement was worked out with the approval of the members of the Federal Open Market Committee under which the dealers would offer bills to the Federal Reserve Bank of New York at the posted rate of  $\frac{3}{8}$  per cent without a repurchase option and the Reserve Bank would purchase these bills for the System account. In order to provide the New York Bank with adequate authority to acquire these bills for the System account, the members of the Federal Open Market 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, 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  $\frac{3}{8}$  per cent per annum. Following this action by the full Committee a similar amendment was made by the executive committee in its direction to the Federal Reserve Bank of New York.

At this meeting of the Federal Open Market Committee, upon motion duly made and seconded and by unanimous vote, the actions of the members of the Federal Open Market Committee as set forth above were approved, ratified, and confirmed for the reasons stated.

### 2. Terms upon which Federal Reserve Bank of New York Will Transact Business with Brokers and Dealers in Government Securities for the System Open Market Account.

Upon motion duly made and seconded, unanimous approval was given to a statement of the terms upon which the Federal Reserve Bank of New York will transact business with brokers and dealers in United States Government securities for the System Open Market Account, it being understood (1) that the procedure set forth in the statement would be put into effect at such time as in the judgment of the executive committee such

action appeared to be desirable after having informed the Treasury of the proposed arrangement, and (2) that the executive committee was authorized to issue such instructions to the Federal Reserve Bank of New York as agent for the System account in connection with the proposed procedure as appeared to the executive committee to be desirable, including the manner in which advice of the arrangement was to be sent to dealers who might qualify thereunder. In accordance with this action, the following instructions were issued to the Federal Reserve Bank of New York by the executive committee on May 6, 1944, and the other Federal Reserve Banks were requested to furnish a copy of the statement of procedure to any broker or dealer in their respective districts which evidenced an interest in qualifying thereunder and in the opinion of the Reserve Bank would have a reasonable chance of qualifying:

1. The Federal Reserve Bank of New York shall furnish copies of the statement of terms to each broker or dealer in Government securities with whom the Bank has been transacting business on behalf of the System open market account, and to such other brokers and dealers as evidence to the Bank an interest in qualifying and in the opinion of the Bank would have a reasonable chance of qualifying. On and after May 15, 1944, the New York Bank will transact business on behalf of the System open market account only with the brokers and dealers who meet the qualifications, have executed the agreement, and comply with the terms set forth in the statement.

2. When the statement has been presented to the brokers and dealers with whom transactions are now conducted for the System open market account, the Bank shall give copies to representatives of the press informally as a formalization of existing procedure.

3. The Bank shall keep the executive committee of the Federal Open Market Committee informed of each broker and dealer with whom it ordinarily transacts business and of each addition to, or removal from, the list of qualified brokers and dealers.

4. The Bank shall encourage the observance of high standards of commercial honor and just and equitable principles of trade by the brokers and dealers in Government securities, through the medium of the Bank's contacts with the brokers and dealers and the Government Security Dealer Group or any other similar organization that may exist or develop.

5. When any broker or dealer has been removed from the list of qualified brokers and dealers for failure to meet the qualifications set forth in the statement of terms or for willful violation of or failure to perform any of the terms and conditions set forth in the agreement, and the Bank is satisfied that he has taken appropriate steps to correct any default and to prevent the occurrence of similar defaults in the future, the Bank may restore him to the list of qualified brokers and dealers and resume the transaction of business with him, after obtaining the consent of the executive committee of the Federal Open Market Committee.

The approved statement of terms was as follows:

Terms on Which Federal Reserve Bank of New York Will Transact Business  
with Brokers and Dealers in United States Government Securities for  
the System Open Market Account

The Federal Open Market Committee has directed the Federal Reserve Bank of New York (hereinafter referred to as the Bank) to transact business in United States Government securities for the System open market account with reputable brokers and dealers in such securities who meet the qualifications and agree in writing to comply with the terms and conditions set forth below.

1. In determining whether a person (individual, partnership or corporation, including a bank) is a qualified broker or dealer with whom the Bank 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 (in the case of a dealer) to make markets 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; and
- (f) The reliance that can be placed on such person 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.

2. The Bank will obtain from such person an agreement in writing to comply with the following terms and conditions:

- (a) He will furnish the Bank with a statement for the confidential information of the Bank and the Open Market Committee showing as of the close of business each business day:
  - (1) The total amount of money borrowed (directly and indirectly);
  - (2) The par value of all Government securities borrowed;
  - (3) 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);
  - (4) 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
  - (5) Such other statistical data as in the opinion of the Bank will aid in the execution of transactions for the System open market account.
- (b) 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,

and he will receive no compensation or profit of any kind in connection with the transaction other than the specified commission paid him by the Bank.

- (c) 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.
- (d) 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 it with a statement of condition as shown by his books as of a date specified by the Bank.
- (e) Unless the Bank shall have informed him of its desire to purchase or sell a particular issue of Government securities, he will not solicit from any other person offerings of or bids for any issue of Government securities for the purpose of placing himself in a position to offer to sell to or to buy from the Bank securities of such issue.

The Federal Open Market Committee has further directed that the Bank decline to transact any further business with a broker or dealer in any case in which the Bank has concluded that the 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.

To the Federal Reserve Bank of New York.

The undersigned hereby agrees to meet the qualifications and to comply with the terms and conditions set forth above.

Dated: ..... (Signature)

The above action of the Federal Open Market Committee followed a thorough study of the relationships with the dealers and brokers through which transactions for the System open market account were executed. The Committee felt that, although the informal arrangement that had existed previously was satisfactory for a period when the volume and amount of transactions for the System open market account were relatively small, the increase in the activity of the account, and the likelihood that operations in very large amounts would continue during the remainder of the war and into the postwar period, made it desirable to place the existing relationships on a formal basis. The terms of agreement represent in substance the informal agreements that had been in effect between the Federal Reserve Bank of New York, as agent, and the dealers and brokers with whom the Reserve Bank previously had transacted business for the System open market account.

MEETING ON MARCH 1, 1944

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Evans, Mr. Leach, Mr. Young, Mr. Davis, Mr. Peyton.