



To: Board of Governors

Subject: Technical Committee of the
New York Money Market.

From: Mr. Riefler

At a recent meeting of the Board, certain questions were raised regarding the Technical Committee of the New York Money Market recently appointed by the Federal Reserve Bank of New York. These questions related among other things to the composition of the committee, the role of the representatives of the Federal Reserve Bank of New York, and the functions of the committee.

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Attached to this memorandum are excerpts from minutes of the Federal Open Market Committee on February 11, April 15, May 27, and September 9, 1958. In summary, these minutes indicate that the appointment of the technical committee had its origin in one of the suggestions contained in the report of the New York Clearing House Association entitled "Clearing House Study of Interrelations of the Money Market and the Government Securities Market" which was submitted in 1957. The specific suggestion contemplated the establishment of a standing money market committee composed of representatives from the Federal Reserve Bank of New York and the Clearing House banks to meet two or three times a year to discuss technical proposals and market practices against the broad background of public policy. This suggestion was approved in principle by the Federal Open Market Committee and the Federal Reserve Bank of New York took steps to implement it, as reported by Messrs. Hayes and Rouse at meetings of the Open Market Committee. In doing so, the Reserve Bank decided to include representatives of other sectors of the New York financial community including Government securities' dealers, insurance companies, and savings banks, besides the Clearing House banks.

At the Open Market Committee meeting on May 27, Mr. Hayes read the names of those persons who had accepted invitations to serve on the technical committee. They are as follows:

Mr. Arthur Forward, Chairman
Senior Vice President,
First National City Bank of New York

Mr. Sheldon R. Green, Vice President,
Chase Manhattan Bank

Mr. Ralph F. Leach, Vice President & Treasurer,
Guaranty Trust Company

Mr. George J. Leness, Partner,
Merrill Lynch, Pierce, Fenner and Smith

Mr. John M. Meyer, Jr., Senior Vice President,
J. P. Morgan & Co. Incorporated

Mr. John M. Ohlenbusch, Vice President,
Bowery Savings Bank

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Mr. Richard K. Paynter, Jr., Executive Vice President,
New York Life Insurance Company

Mr. Herbert N. Repp, President,
Discount Corporation of New York.

In further comments at the meeting on May 27, Mr. Hayes said that the exact role to be played by the committee was still somewhat nebulous, but that it was thought that this should be the kind of group that could meet with Mr. Rouse several times a year and discuss any phases of the securities market on which the New York Bank felt that the committee could supply helpful information, advice, or comment. Conceivably, the committee might also undertake certain studies if that seemed desirable. It was made clear that the technical committee was being established by the Federal Reserve Bank of New York and that Mr. Rouse would be representing the New York Bank in dealing with the committee. It was also made clear that the committee would have nothing to do with what the Federal Open Market Committee's program was or might be.

In letters to the members of the committee dated May 14, 1958, Mr. Hayes made the following statements:

As you know, we in the Federal Reserve System try to keep in close touch with developments in the money and securities markets. Some of our contacts have been formal but most have been informal; they have worked well so far as they have gone. Yet we have often wondered whether our liaison with the market could not be even more effective if technical problems and market practices were discussed from time to time by a formal committee which could consider these matters against a background of public policy. The desirability of having such a committee has been discussed recently within the System, with the President of the New York Clearing House Association, and with the General Committee of the New York Money Market. There has been general agreement that such a committee would serve a useful purpose.

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It is our thought that some rotation of membership would be desirable from time to time. For this reason I propose that all members of the committee be appointed for a term of approximately two years, up to June 30, 1960, at which time I would plan to reappoint most of the members but to provide for a few changes.

At this stage I would not attempt to suggest a detailed program concerning such matters as probable agenda or the frequency of meetings. The timing of meetings would probably depend on the nature and urgency of the problems or subjects to be discussed, but we would like to think that the committee could gather at least several times a year. These are matters to which the group itself will probably address itself when it comes into being.

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At the Open Market Committee meeting on September 9, Mr. Rouse stated that it had been suggested to the technical committee that an appropriate subject for study would be the question of the possibility of avoiding a recurrence of the conditions which brought about the speculative fever in the Government securities market during the past summer. He advised that the Federal Reserve Bank of New York was preparing a memorandum of a factual nature for the use of the committee. Copies of that memorandum were furnished to the members of the Federal Open Market Committee for their information under date of September 11, 1958. I have been informed that the first meeting of the technical committee was held on Monday, September 15, as scheduled, that the meeting was chaired by Mr. Forward, and that Messrs. Hayes, Treiber, Rouse, and Stone attended the meeting on behalf of the Federal Reserve Bank of New York.

Attachment

REC'D RECORDS SECTION

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Excerpts from minutes of the Federal Open Market Committee concerning the appointment of a standing money market committee.

February 11, 1958

Chairman Martin next referred to the report of the New York Clearing House Association distributed with Mr. Hayes' letter of October 22, 1957, and to a memorandum prepared by Messrs. Roelse, Rouse, Thomas, and Riefler and distributed under date of February 6, 1958 on the Clearing House Study of Interrelations of the Money Market and the Government Securities Market. At Chairman Martin's request, Mr. Riefler commented on the report substantially as follows:

The Clearing House Committee did not come to any constructive suggestions unless we accept the basic proposition that corporate financing of dealers through the negotiation of repurchase agreements by dealers with corporations represents a revision of the banking laws. The Clearing House study attacks this practice as illegal in that it in effect results in the creation of money by nonbanking institutions, that it provides a figure for payment of interest on demand deposits and that it represents a practice that is dangerous to the money system of this country. All of the study's constructive suggestions turn around acceptance of that proposition, a proposition which the Staff Committee was not willing to accept. The staff suggests to the Open Market Committee, however, that the charges are so important and come from such a preeminent body that they should not be dismissed offhand. It believes, therefore, that the Open Market Committee may wish to commission the staff to make an exhaustive study of the charges and to report back to the Committee at a later date.

Aside from that suggestion, the Staff Committee makes two general observations on the Clearing House Study. First, it appears that the money market and the dealer mechanism is getting along and that there is no crisis to require overt action. Second, there are two minor suggestions made in the Clearing House report which the staff believes might be accepted, namely, (a) the establishment of a standing money market committee composed of representatives from the Federal Reserve Bank of New York and the Clearing House banks to meet two or three times a year to discuss technical problems and market practices against the broad background of public policy, and (b) the release of daily figures covering aggregate reserves, reserve requirements, and borrowings of New York Clearing House banks.

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In response to Chairman Martin's request, Mr. Rouse stated that Mr. Riefler had covered the matters in the report as he saw them. He and Mr. Hayes had discussed the question of having a committee such as the Clearing House report suggested and on the suggestion that daily figures be released he felt as did the other members of the Staff Committee that this could be done without any harm.

Mr. Allen commented that he had some sympathy with the view of the Clearing House banks that it was not desirable for business corporations to be making funds available under repurchase agreements although his view was based on reasons other than those given in the Clearing House report.

At the conclusion of a brief discussion of the report, Chairman Martin suggested that the report of the Staff Committee be accepted and tabled for the moment with the thought that further consideration would be given later to what additional study should be made.

In response to Mr. Riefler's question as to whether this included authority for the staff to make a study of the Clearing House report, Chairman Martin stated after some discussion that he could see no harm in having the staff study the report further.

April 15, 1958

Mr. Rouse recalled that at the Committee meeting on February 11, 1958, there had been discussed a Staff Committee report on the recommendations contained in a report by the New York Clearing House Association on Interrelations of the Money Market and the Government Securities Market. He noted that the latter report contained two minor suggestions, and that it had been recommended in the subcommittee report that these suggestions be adopted. One of them had to do with the establishment of a standing

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money market committee composed of representatives from the Federal Reserve Bank of New York and the Clearing House banks to study, on a more or less continuous basis, technical problems of the money market. The other suggestion concerned the daily publication of figures on reserves and borrowings of the New York Clearing House banks. Mr. Rouse indicated that the Federal Reserve Bank of New York was completing plans to implement these suggestions, which he understood to have been approved in principle at the Federal Open Market Committee meeting on February 11. With respect to the recommendation for establishment of a committee, he stated that after careful consideration it had been decided to include representatives of other sectors of the New York financial community, including the Government security dealers, insurance companies, savings banks and stock exchanges, besides the Clearing House banks. With respect to the recommendation of the Clearing House concerning the reserve data, Mr. Rouse indicated that in the view of the New York Bank it would be desirable to include in the published data net purchases or sales of Federal funds by the Clearing House banks, and that the New York Bank would communicate this view to the Clearing House. The plan would be to give the data not only to the Clearing House banks but to make the figures more generally available by giving the information to the "broad tape" for the benefit of others who may be interested.

With reference to the plans outlined by Mr. Rouse, Chairman Martin suggested the desirability of keeping the Open Market Committee fully informed with regard to every step taken in a matter of this kind because of the importance of market relationships. He expressed the view that the Committee should be given a full opportunity to comment on such matters before any plans were actually put into operation.

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Mr. Rouse stated that this was the purpose of his report, that what had been done thus far was in the nature of planning actions to be taken, and that this, therefore, seemed to be a good time to advise the Committee of the steps that were being considered. He also said that it was his understanding that the implementation by the Federal Reserve Bank of New York of both of these suggestions was approved at the meeting of the Open Market Committee on February 11.

Chairman Martin then stated that he would personally have no objection but that he was just raising a point of order. He thought it was very important for the Open Market Committee to be informed concerning what was going on in the Account at every step. In other words, every member of the Committee should know what the Account was doing vis-a-vis the public. In connection with the report of the New York Clearing House Association, he suggested that perhaps the Committee itself ought to meet with the Clearing House Association for an exchange of views. The report was unsatisfactory and it seemed to him that no progress was being made in dealing with the problem of the money market. This was something for which the Committee had a real responsibility and which it should follow up at every opportunity.

May 27, 1958

Chairman Martin then called upon Mr. Hayes for a statement with respect to the proposal, previously discussed at the meeting of the Open Market Committee on April 15, 1958, to establish a standing money market committee composed of representatives from the New York Reserve Bank and the New York Clearing House Association banks to study, on a more or less continuous basis, technical problems of the money market. This would be

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in implementation of one of the minor suggestions contained in the report by the Clearing House Association on interrelationships of the money market and the Government securities market.

In this connection, and with further reference to certain comments made at the April 15 meeting, Chairman Martin stated that since that meeting he had checked the records of the Committee and had confirmed that the Federal Reserve Bank of New York had authority from the Committee to take steps to implement the suggestion in the Clearing House report.

Mr. Hayes then read the names of those who had been asked to serve on the technical committee and noted that this would afford representation not only from the Clearing House banks but also other sectors of the New York financial community. He said that all of those invited to serve on the committee had accepted and that it was therefore proposed to organize the committee and move forward. He was hopeful that the committee could make a useful contribution to the thinking on some of the problems of the money market.

In answer to a question by Mr. Robertson, Mr. Hayes said that the exact role to be played by the committee was still somewhat nebulous, but that it was thought that this should be the kind of group that could meet with Mr. Rouse several times a year and discuss any phases of the securities market on which the New York Bank felt that the committee could supply helpful information, advice, or comment. Conceivably, the committee might also undertake certain studies if it seemed desirable.

Mr. Robertson then inquired whether he was correct in thinking that the technical committee would have nothing to do with what the Open Market

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Committee's program was or might be, and Mr. Hayes stated that that was correct.

In further discussion, it was made clear that the technical committee was being established by the Federal Reserve Bank of New York and that Mr. Rouse would be representing the New York Bank in dealing with the committee.

September 9, 1958

Mr. Rouse referred to the speculative situation in the Government securities market during the summer and said that a meeting of the technical committee of the money market, the appointment of which had previously been reported to the Committee, had been called for next Monday. It had been suggested to the committee that an appropriate subject for study would be the question of the possibility of avoiding a recurrence of the conditions which brought about the speculative fever in the market. Whether anything would come out of it was an open question, but the committee was on notice. The Federal Reserve Bank of New York was preparing a memorandum on the matter of a factual nature for the use of the committee and copies would be furnished to the Federal Open Market Committee.