

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, N.Y.

RECTOR 2-5700

REC'D IN RECORDS SECTION
APR 1 1958

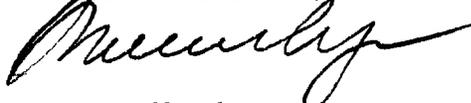
March 31, 1958

Mr. Winfield W. Riefler
Secretary, Federal Open
Market Committee
Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Mr. Riefler:

In accordance with the practice of keeping the Federal Open Market Committee informed on the status of dealers with whom business is transacted for the System Open Market Account, Mr. Rouse has asked me to send to you the enclosed thirty-five copies of his memorandum on this subject, dated March 31, 1958, for distribution to members of the Committee.

Very truly yours,



S. S. Marsh, Jr.,
Assistant Vice President

Enclosures

To Members of the Federal
Open Market Committee

From Robert G. Rouse, Manager,
System Open Market Account

March 31, 1958

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Subject: Dealers with Whom Business
is Transacted for System
Open Market Account

CHAS. E. QUINCEY & CO.
NEW YORK, N. Y.

Trading relations maintained with this firm for transacting business in the System Open Market Account have been unsatisfactory for some time. Early in 1957 the firm was warned that unless its performance improved substantially, trading arrangements might have to be terminated. The record was again reviewed after the first of this year and found to be still unsatisfactory, particularly in relation to the firm's response to "go-arounds" conducted by the Trading Desk for the purpose of buying or selling Treasury bills for the System Account. Offerings of, or bids for Treasury bills by the firm have been less frequent over the past year and, generally, the response has been the poorest of any of the dealers with whom System Account business is conducted.

On February 10, 1958, we met with Mr. Maurice A. Gilmartin, Jr., senior partner of Chas. E. Quincey & Co. He stated that his firm's unsatisfactory performance was due entirely to the fact that it has been quite inactive in Treasury bills reflecting Mr. Gilmartin's personal reluctance to take positions in Treasury bills in view of the high cost of carry. He believes, as a principle, that the Federal Reserve Bank or the New York City banks should provide financing to enable United States Government securities dealers to carry Treasury bills on a less unprofitable basis than at present. Mr. Gilmartin was especially critical of the New York City banks because of their unwillingness to take a more liberal attitude toward lending to United States Government securities dealers.

We told Mr. Gilmartin that trading relations with his firm had now reached the point where the System Account could not continue to do business with it unless it was willing to make a better market in Treasury bills. We

remarked that while we might be sympathetic with the dealers' desire for less expensive financing on their Treasury bill positions, there is no way in which we could make this possible at the present time. Mr. Gilmartin appeared to understand that the System could not, at least under existing conditions, be more liberal in extending repurchase agreements to United States Government securities dealers, and he commented that the situation had now reached the point where he might have to retreat from his position with respect to trading in Treasury bills or relinquish trading relationships with the System Account. He asked that we allow him two weeks in which to consider this question and to make a trip to Washington to discuss the matter with Chairman Martin.

Mr. Gilmartin recently reported that he had not as yet been able to see Chairman Martin but that he hoped to do so during the week of April 7 - 11. If there is no indication of a change in policy at Quincey & Co. after that time we expect to terminate trading arrangements with Chas. E. Quincey & Co. without further delay.

BARTOW LEEDS & CO.
NEW YORK, N. Y.

Early in 1957 we also considered the performance of this firm which had been rather marginal, and decided to continue the trading relationship for a further trial period. We have recently reviewed the record of the firm's responses to "go-arounds" for System Account during 1957 and found that it has performed satisfactorily in this respect. The firm is trying to build up activity in Treasury bills and has considerably enlarged the volume of its trading, at the same time carrying reasonably substantial positions in Treasury bills for a firm of its size. Its performance is definitely better than the performance of Chas. E. Quincey & Co., although still not as good as some of the larger firms, which is to be expected. However, in view of the desire of Bartow Leeds & Co. to make good markets in Treasury bills, and its ability to respond to the needs of the System Account, we have decided to continue trading relationships with the firm.