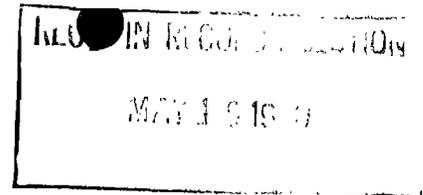




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



May 13, 1960.

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Young

Further question has been raised by Aubrey G. Lanston & Co. concerning the firm's participation in the Treasury-Federal Reserve program of Government security market statistics. The attached letter from Mr. Leonard M. Horton, President of the firm, sets forth the problem.

Since the new program of statistics collection is announced to begin as of May 19, it is desirable, if possible, to get a reply back to the Lanston firm before that date. The attached draft reply has been worked out by the Committee's staff in cooperation with the Treasury's staff. The letter would be signed by President Hayes.

If you feel that the draft meets the situation, an indication by wire of your approval or disapproval of this reply will be appreciated by early Monday afternoon.

Concerning the substance of the draft reply, it was the staff's conclusion, after discussion, that the Lanston firm should be advised explicitly as to the Committee's action regarding exceptional access to individual dealer's figures. It was also their view that this information should be given freely to all dealers.

In setting forth the ground rules for exceptional access to individual dealer figures in the letter, however, the staff has made one divergence from the memorandum on the statistical program adopted by the Committee on January 12 and has provided for the addition to the Committee's record of one minor specification.

The divergence relates to the Manager's access to individual dealer reports under disorderly conditions. In the original program description as approved by the Committee, this access was described as being possible under market conditions verging on the "disorderly" or "actually disorderly." In the draft letter, the Account Manager's access on his own initiative is limited to situations where the Committee has made a disorderly determination. The situation of verging on the disorderly would then, under this revised statement of the exceptions, be covered by the general authority of the President of the Federal Reserve Bank of New York to direct its selected or full

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detail of individual dealer reports be made available to a designated System official in instances of unusual needs for their information.

The supplemental specification that is a revision of the Committee's earlier authorization provides that all instances of exceptional access to individual dealer figures shall be reported to the Committee so that an official record of such instances is maintained.

A handwritten signature, appearing to be "R. Cuy", is written in black ink over a solid horizontal line. The signature is cursive and stylized.

DRAFT

5-13-60

RECEIVED BY THE SECRETARY OF THE BOARD

MAY 16 1960

Mr. Leonard M. Horton, President,
Aubrey G. Lanston & Co., Inc.,
Twenty Broad Street,
New York 5, New York.

Dear Mr. Horton:

This is in reply to your letter of May 10, addressed to Miss McWhinney, and relating to the Treasury-Federal Reserve program of Government securities market statistics. Your letter raises two points of procedure regarding the handling of reports supplied by dealers to this Bank.

Concerning the first point, a major objective of the new Treasury-Federal Reserve statistics program has been to develop data on the Government securities market appropriate for public information. We recognize, however, that prior to launching a continuing release of such statistics, some experience with the processing and interpretation of data is essential. Therefore, as explained in earlier meetings between our staff and members of your firm, we have planned an experimental period of data collection of several months' duration during which no statistics would be made public. Following this period of familiarization, we further plan to contact the dealers again regarding problems of publication. At that time, we will solicit suggestions from each dealer on the content and form of series to be released, as well as seek dealer views on the time lag between collection and release dates. We have never proposed, however, to make our publication program in this area dependent on the individual approval of specific dealers as to the details of the information to be released.

Concerning your second procedural point, relating to the exceptional conditions under which individual firm data will be available to persons outside the Market Statistics Department, I understand that Mr. Ralph A. Young, of the Board's staff, has already talked to Mr. Youngdahl at some length about the explicit procedures that the Treasury and Federal Open Market Committee have adopted in order to limit access to individual firm data to specially authorized occasions and persons. As Mr. Young indicated, with the exception of the few summary figures that may be requested by the Manager of the Trading Desk for individual dealers seeking repurchase accommodations at this Bank, availability of individual firm data outside the Market Statistics Department under special conditions is expected to be rare.

To illustrate specifically the types of conditions under which such exceptional release of data could occur, I can perhaps be most helpful by listing the situations presented for the consideration of the Federal Open Market Committee at the time it authorized the new statistics collection program:

- (1) The Manager of the Open Market Account may have full access to individual dealer reports in a market situation determined to be disorderly.
- (2) In other circumstances of an exceptional nature, the Market Statistics Department might be directed by the President of the New York Federal Reserve Bank to make selected or full detail of individual dealer reports available to qualified System officials designated for examination and study.

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- (3) In connection with any Treasury financing, the Treasury might, on occasion, request the President of the Federal Reserve Bank of New York to direct that special data be supplied as to dealer holdings of issues specifically involved in, or closely related to, the financing in question.

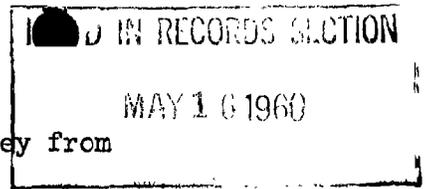
It is impossible for us to foresee at this time how many special occasions for access to individual dealer reports might arise. If any respondent in the program would wish to raise the question after several months of experience, we foresee no reason at this time why an answer might not then be supplied. All instances of exceptional access to individual dealer figures will be reported to the Federal Open Market Committee, so that an official record will be maintained.

I am naturally pleased to be informed of your preparation to cooperate in our statistical program. The expectation of the Treasury and the Federal Open Market Committee is, of course, that all of the dealers will respond cooperatively to our joint request for the statistical material needed to fulfill the program that both agencies are undertaking jointly, through the Federal Reserve Bank of New York, in the public interest. In closing, may I assure you that the handling, the processing, and any exceptional official access to individual dealer figures will be protected at all times by the strictest standards of confidentiality.

Since these matters are of interest to all reporting dealers, we are passing the substance of this letter along to other dealers without mentioning your firm or referring specifically to the questions which you raised.

Sincerely,

HAYES



COPY of paragraphs from letter received by Miss McWhinney from
Aubrey G. Lanston Co. (dated May 10, 1960)

This is to acknowledge your letter of May 9 to Mr. Youngdahl. Unfortunately, Mr. Youngdahl is making a business trip on the West Coast and will not be back in the office until the early part of next week. When he returns I know he will give your letter and its enclosures his immediate attention. We note that you wish to start your program with the figures for May 19. We hope that we will be able to submit our reports to you as of that time.

May I call to your attention that your letter of May 9 omits any reference to two points of inquiry which Mr. Lanston mentioned as being important to us when we consulted with you in your office last January. Unfortunately, Mr. Lanston is in the hospital undergoing a series of checkups and treatment. If I properly recall the points he mentioned, they were these:

1. It was his understanding that the information you requested of us, and that we hoped to be able to submit to you, is to be used to produce aggregate figures from X number of dealers in Government securities but no such aggregate figures will be released to the public in the future without the consent of each participating dealer. Mr. Lanston asked for confirmation of that understanding.

2. Mr. Lanston also asked that the President of the Federal Reserve Bank of New York (since the reports are to the Federal Reserve Bank of New York) provide him with assurances that our individual firm figures would not be released to anyone outside of your Statistical Department, except with our consent. I understand Mr. Youngdahl has had some conversations with Mr. Ralph A. Young at the Federal Reserve Board with respect to this point. It seems to me it would be helpful in connection with our consideration of this matter, upon Mr. Youngdahl's return next week, if you would write us indicating your understanding of the circumstances under which individual firm figures might be so released.

I know that any information you can give us on these scores will be helpful in expediting our preparation to cooperate in your statistical program.

/s/ Leonard M. Horton
President