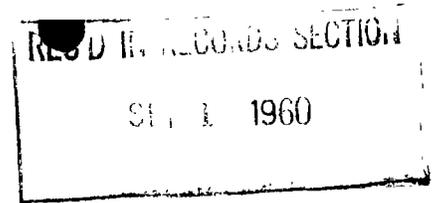




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

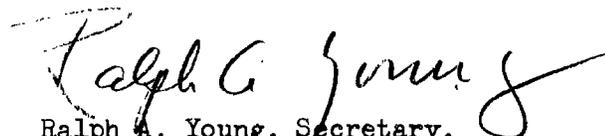


September 12, 1960.

TO: Federal Open Market Committee

FROM: Mr. Young

Attached for your consideration is a copy of a memorandum prepared at the Federal Reserve Bank of New York proposing that provision be made for the Market Statistics Department of that Bank to supply the officers of the Securities Department with quarterly summaries of data on the trading volume of individual dealers. The proposal has been approved by the Treasury, and if approved by the Committee, will also have to be cleared with the dealers.


Ralph A. Young, Secretary,
Federal Open Market Committee.

Attachment

September 8, 1960

RECORDS SECTION

FEDERAL RESERVE BANK OF NEW YORK

SEP 12 1960

For a number of years this Bank has made quarterly analyses of the volume of transactions in United States Government securities reported by dealers. The analyses, using data for the preceding quarter, have shown the volume of trading of each dealer, both with our Trading Desk and with the market as a whole. These statistics have been indispensable in developing criteria by which judgments can be made as to whether particular firms can be regarded as dealers. Such judgments must be made at regular intervals, on behalf of the Federal Open Market Committee and also on behalf of the Treasury, which furnishes to the Comptroller of the Currency a list of primary dealers for the use of national bank examiners in considering margins on loans against Government securities. While an analysis can still be made of this Bank's transactions with the dealers, the officers responsible for such judgments are no longer in a position to analyze the over-all volume of trading by individual dealers, since the ground rules of the new statistics collection program are written so broadly as to preclude them from having access even to summaries of past data on the trading volume of individual dealers.

That such data are required is evident. First, the list of dealers with which this Bank conducts transactions, and the list which it furnishes the Treasury for the use of the Comptroller and the national bank examiners, must be reviewed regularly to insure current accuracy. Secondly, it happens relatively frequently that the Bank is approached by firms which have begun operations in Government securities, or which contemplate beginning such operations, with a view to developing trading relationships. On such occasions a judgment must be made as to whether the firm concerned is in fact a primary dealer in Government securities, or whether the scale and nature of the operations contemplated are such that the firm might come to be regarded as a primary dealer. Such a judgment is of importance not only

to the firm, the market, and the Open Market Committee, but also, as noted, to the Treasury and the Comptroller.

If judgments of this kind must be made, it seems clear that the responsible officers must have criteria in terms of which to make them. And since a principal criterion of whether a firm is a dealer is the volume of business done by that firm in relation to the volume done by other firms as well as to total volume, it also seems clear that the volume data on those other firms, in addition to the composite figures, must be available.

Provision was not made for supplying the officers concerned with summaries of past volume data for individual dealers at the time the ground rules for the new statistics collection program were written. Therefore, we now propose that this be corrected, and that provision be made for the Market Statistics Department to supply the officers of the Securities Department with quarterly summaries of past data on the trading volume of individual dealers. This proposal has been approved by the Treasury, and if it is approved by the Committee, it will also have to be cleared with the dealers. However, we have no reason to believe that firms which for many years furnished those officers with current data on volume, positions, and borrowing would have any objection if they were now to be furnished with quarterly summaries of past data on volume alone.