

MAY 7 1956

May 2, 1956

TO: Members of the Federal
Open Market Committee

FROM: Robert G. Rouse, Manager,
System Open Market Account

SUBJECT: Changes in List of Dealers
With Whom Business is
Transacted for System Open
Market Account

The Management of the System Open Market Account has made a practice of periodically reviewing the performance and financial status of dealers with whom business is transacted for System Open Market Account to determine whether there is justification for continuing trading relations with those dealers on our initiative. During the past year arrangements have been suspended with three dealers, and one dealer is to be put on notice shortly that suspension will be necessary unless performance improves. This action applies to transactions in repurchase agreements as well as to outright trades. A summary of the actions and reasons therefor are set forth below.

BARTOW LEEDS & CO.

Since July 1955 this firm has been included in the regular "go-arounds" for System Open Market Account and in other types of operations for the Account. To date there has been no occasion, out of many opportunities, when the firm has submitted a successful bid or offering to the System Account as a result of these contacts. The original arrangements with the firm were that the relationship would be on a trial basis and that they would furnish us with evidence, presumably volume figures, to support the contention (about which we had reservations) that they were doing an actual dealer business in making markets for United States Government securities. Thus far, the firm has not furnished evidence of any kind, despite several requests. The firm inquired about the possibility of making repurchase agreements but did not file the necessary collateral agreement, as requested.

Since the firm seemed only mildly interested in doing business with this Bank, had not taken the trouble to furnish the information requested, and had apparently not been able to perform in connection with open market operations for System Account, it was decided to terminate the arrangement and they have been so advised.

J. G. WHITE & COMPANY, INC.

Trading relations with this firm were established in June 1953. Since that time they have been moderately active in responding to requests for bids and offerings in connection with System Open Market Account operations and have, on occasions, been extended repurchase agreements of moderate size. However, the firm's financial statements have shown a continuing deterioration of their financial condition, net worth dropping from \$218,000 on January 31, 1954, to \$145,000 on January 31, 1955, and to \$58,000 on January 31, 1956. Although the firm's operations in United States Government securities have thrown off a modest continuing profit over the past year, their activities in other areas of the securities markets have resulted in substantial losses.

This performance has raised a serious question as to the competency of the firm's management and whether their capital would be further dissipated to a point where there would not be adequate protection for transactions in United States Government securities. We had previously expressed concern over the trend of the firm's affairs but as the latest statement, received early in April, showed further deterioration, it was decided to terminate trading arrangements with them, both for System Open Market Account and for repurchase agreements. The firm has been advised accordingly.

NORTHERN TRUST COMPANY OF
CHICAGO, CHICAGO, ILLINOIS

This bank's Government Bond Department was first included in our list of dealers on April 23, 1953. From that date they were included in most of our

contacts with the market relating to System Open Market Account transactions. While there have been occasional small transactions with them, the results have been insignificant and their attitude has been unresponsive to our requests for bids or offerings for the Account. After having been put on notice that the relationship did not seem to be contributing to our operations and the general functioning of the market, the bank's performance did not improve and it was decided to drop them from the list. Accordingly, no contacts have been made with them since January 13, 1956 but they have not yet been formally advised that the arrangement has been terminated. They have raised no question concerning this change in relationship but will be advised when an occasion arises.

C. E. QUINCEY & CO.

This firm has been on the list as a broker and dealer since 1934, with one hiatus in 1942-43. For the past two years they have been included in the regular "go-arounds" for System Open Market Account. Going further back, we have made repurchase agreements of modest size with the firm over a considerable period. However, these transactions taken together have been relatively insignificant and the firm's general activity in United States Government securities appears to be relatively small.

Since January 1955 there have been only two transactions with the firm in Treasury bills for the System Open Market Account--one for \$4 million in December 1955 and the other for \$3.5 million in January 1956. On all other occasions when they have been contacted for this purpose, they have either not been willing to bid for Treasury bills or had none to offer at market rates. There have been several repurchase agreements with the firm since January 1955 for relatively short periods and for small amounts consistent with their net worth (\$599,000 as of September 30, 1955) as shown below:

<u>Contract Dated</u>	<u>Due</u>	<u>Amount</u>	<u>Outstanding</u>	<u>Opening of Business</u>
<u>1955</u>				
Sept. 2	Sept. 7	\$1,500,000	\$1,500,000	Sept. 3 to Sept. 7
" 8	" 14	1,500,000	1,500,000	" 9 " " 14
Dec. 8	Dec. 23	2,000,000	2,000,000	Dec. 9 " Dec. 22
" 22	Jan. 6, 1956	2,800,000	4,800,000	" 23
			4,200,000	" 27
			3,700,000	" 28, 29, 30
			-0-	Jan. 3, 1956
<u>1956</u>				
March 12	March 14	2,000,000	2,000,000	March 13, 14

High point \$7,000,000 December 31, 1953

In general, the firm's dealer business in United States Government securities appears very small as compared with most of the other firms in the business and, as shown by their response to our contacts, they do not normally make effective markets in Treasury bills; also they enter tenders in the bidding for Treasury bills only occasionally, and their operations are clearly insignificant in the over-the-counter market as a whole.

One reason for keeping the firm on the list over the years was that as a member of the New York Stock Exchange they could execute transactions in United States Government securities on the Exchange, if necessary. There has been no need for this service in recent years, but since only three other dealers or brokers on the list are members of the New York Stock Exchange (Salomon Bros. & Hutzler, Mabon & Co., and Asiel & Co.), this service could be helpful at some future time. It could also be helpful to put money out on repurchase agreements with the firm at times, although the amounts involved would presumably be nominal. The firm has been of little help with respect to System Account transactions and could be by-passed without detriment to these operations.

In view of the foregoing, the firm will be advised that their performance has been of negligible help on System Open Market Account operations, and that, unless the situation improves by the end of this year, consideration will be given to ceasing trading relations with them on our initiative as well as repurchase agreement facilities.