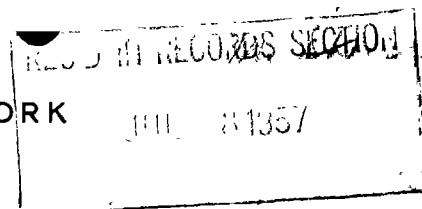


FEDERAL RESERVE BANK OF NEW YORK
NEW YORK 45, N.Y.

RECTOR 2-5700



Rec'd 7/3/57

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

Dear Mr. Riefler:

There are enclosed ten copies of a memorandum prepared in the Securities Department of this bank containing pertinent data taken from the financial statements of eleven of the twelve nonbank dealers in United States Government securities with whom business for the System Open Market Account is transacted, together with a discussion of such operating results of the dealers as are available. Upon receipt and analysis of a late statement of the remaining dealer, Charles E. Quincey & Co., Inc., we shall furnish you a supplement to this memorandum.

This memorandum is being sent to each member of the Federal Open Market Committee.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Robert G. Rouse". The signature is fluid and cursive, written over the typed name.

Robert G. Rouse, Manager
System Open Market Account

Enclosures (10)

JUL 8 1957

CONFIDENTIAL -- (F. R.)

Financial and Operating Data
United States Government Securities Dealers
Year 1956

The attached statement entitled "Comparative Schedule of Balance Sheet Data of United States Government Securities Dealers" contains financial information taken from available statements of 11 of the 12 non-bank dealers with whom business for the System Account is transacted. The latest statement received from Charles E. Quincey & Co. is dated May 31, 1956. Current figures of this dealer will not be available until the next audit required by the New York Stock Exchange.

Unsettled market conditions made the year a difficult one from an operating standpoint. Profits were reported by a number of the dealers, but these were not so large as in the previous year, and generally were substantially lower than in 1954. A majority of the dealers do not submit operating statements, but there were a number of declines in net worth, some the result of operating losses, and some the result of withdrawals of capital.

Brief comments concerning the results of each dealer's operations follow:

First Boston Corporation

The annual report to stockholders gives the following operating results:

	<u>1955</u>	<u>1956</u>
Net income before dividends	\$3,322,239	\$3,154,375
Dividends	2,812,500	2,656,387
Net income after dividends	509,739	497,988

The report states that the trading business was conducted with small inventory positions and all departments of the business operated profitably.

C. J. Devine & Co.

We are informed by a partner that they had a good year in 1956, their gross earnings amounting to approximately \$1,000,000, of which between \$300,000 and \$400,000 came from municipal bonds. Net worth showed an increase of \$557,000. This was after partners had withdrawn balances sufficient to take care of their tax requirements which has not been a regular practice, such withdrawals usually not being made until after the end of the year.

Salomon Bros. & Hutzler

Profit and loss figures were not submitted. For the year ended October 1, 1956, net worth declined \$4,067,000 to \$7,500,000. We are informed that this decline reflects substantial losses, both realized and as a result of markdown of inventory to market, incurred as the result of unfavorable market conditions, as well as withdrawal of capital occasioned by the retirement of a general partner and the death of a limited partner. However, the remaining capital is considered adequate for the volume of business handled and the risks involved. On April 15 the senior partner advised us that at that time the firm's capital was approximately \$8,500,000 and that operations in the past few months had been very satisfactory.

Discount Corporation

The corporation reports net profits for 1956 of \$475,908, of which \$400,000 was disbursed as dividends and the remainder transferred to undivided profits thus accounting for the increase in net worth of \$75,908. Net profits in 1955 were \$550,674 and dividends of \$400,000 were paid.

C. F. Childs & Co., Inc.

The decline of \$2,814,000 in the company's net worth during 1956 represents, in large part, the liquidation of the interests of Mr. Newell Childs' two sisters amounting to approximately \$1,000,000 each. Apart from this the statement showed a deficit of \$185,531, a decline in the surplus account of

\$761,123 for the year which may represent an operating loss. A new item, "Loan from Officer \$189,000," appeared on the latest statement but is not included in the capital account figure shown in attached schedule of balance sheet data.

Changes in the composition of net worth over the year were as follows:

	<u>12/31/55</u>	<u>12/31/56</u>	<u>Change</u>
Class "A", voting 6% cum. stock	\$ 200,000	\$ 106,000	-\$ 94,000
Class "B" non-voting	4,800,000	2,894,000	- 1,906,000
Surplus	575,592	- 185,531	- 761,123
Less: 843 shares Class "B" stock held in Treasury	- 295,050	-	+ 295,050
	<u>\$5,280,542</u>	<u>\$2,814,469</u>	<u>-\$2,466,073</u>

New York Hanseatic Corporation

During the fiscal year ended October 31, 1956 earned surplus declined \$36,000, presumably reflecting a loss from operations. The decline in net worth of \$186,000 indicated in the attached schedule of balance sheet data results from this reduction in earned surplus and the exclusion of \$150,000 of term notes due on December 31, 1956, which had been included with net worth in the preceding statement. Of the balance of term notes outstanding, \$200,000 is due June 30, 1959 and \$300,000 is due June 30, 1960.

Aubrey G. Lanston & Co., Inc.

Operating figures were not furnished, but the management advises that they have improved their position over a year ago, primarily as the result of a large volume of business in short term securities sold on a "buy-back" basis with a spread sufficient to assure a profit. Earned surplus shows a reduction of \$1,479,300 from a year earlier, but it may be that this reflects, entirely or in part, realized losses or a markdown to market of securities in portfolio on which the April 30, 1956 balance sheet indicated there was unrealized depreciation of \$1,937,400. The current statement reflects unrealized appreciation

on securities of \$62,600. During the year \$234,000 6% Series C Debentures due September 1, 1959 were retired. These debentures had been purchased during the previous year by the principal stockholders to cover the unrealized depreciation in inventory existing at that time. Also \$50,000 6% Series A Debentures, due September 1, 1964, were retired in accordance with the terms of an agreement with the holders. As the result of these factors, adjusted capital account increased \$235,200 during the fiscal year to \$2,026,900, as indicated in the following summary:

Capital Account

(In thousands of dollars)

	<u>4/30/57</u>	<u>4/30/56</u>	<u>Change</u>
Debenture Bonds	1,388	1,672	- 284
Capital Stock - Class A, Cum.	18	18	-
" " - Common	47	48	- 1
Capital Surplus	29	29.5	-.5
Earned Surplus	<u>532.3</u>	<u>2,011.6</u>	<u>-1,479.3</u>
Total	2,014.3	3,779.1	-1,764.8
 <u>Less</u>			
Debenture Bonds due Within 1 Year	50	50	-
Net Unrealized Depreciation on Securities	-	1,937.4	-1,937.4
 <u>Plus</u>			
Net Unrealized Appreciation on Securities	<u>62.6</u>	<u>-</u>	<u>+ 62.6</u>
Adjusted Capital Account	<u>2,026.9</u>	<u>1,791.7</u>	<u>+ 235.2</u>

An asset item in the balance sheet - Receivable under Repurchase and Resale Agreements - which in the April 30, 1956 statement was \$1,880,724.01, was increased to \$13,137,785.97. A footnote to the April 30, 1957 balance sheet reads as follows:

"Represents the net receivable for transactions on behalf of officers and directors; the securities purchased and sold have market values of \$17,348,906.25 and \$3,899,493.75, respectively."

D. W. Rich and Co., Inc.

The increase in net worth of \$198,000 during the year ended October 31, 1956 represents an increase of \$138,000 in earned surplus and \$60,000 in reserve for contingencies. The reserve for contingencies represents amounts provided in past years for Federal income taxes (in excess of amounts payable as shown on the returns) and renegotiation (which was concluded with no adjustments). Net working capital increased by \$227,000 to \$690,000. The increase in earned surplus suggests profitable operations but there is no evidence as to how this was divided between the securities and textile ends of the business. Listed stocks held by wholly owned subsidiaries had a market value of \$3,210,000 on statement date compared with \$2,850,000 a year earlier. Including these securities at market value the net asset value of the subsidiaries was approximately \$2,450,000 greater than the \$775,000 carrying value of their capital stocks in the parent company's balance sheet. The arrangement continues in effect whereby a local bank, which holds the stock as collateral to loans to the subsidiaries aggregating \$27,000, has agreed to inform us should any of the stocks be released from collateral. As in the past allowance has been made for the additional values of these stocks in conducting our business with the firm.

Wm. E. Pollock & Co., Inc.

The December 31, 1956 statement shows a decline in net worth of about \$9,000. The firm has not informed us how it fared in its operations in United States Government securities as compared with its activities in other types of issues, but indicated that the results were quite satisfactory in view of prevailing market conditions.

Briggs, Schaedle & Co., Inc.

No operating figures were submitted. Earned surplus declined \$26,000 over the year. Furthermore, at the year end there was unrealized depreciation of approximately \$57,000 on securities sold under repurchase agreements, compared

with unrealized appreciation of \$50,000 on the earlier statement date. These amounts were not reflected in the balance sheets. The amount of subordinated debentures outstanding increased \$7,000, which is reflected in the change in capital account in attached schedule of balance sheet data. Representatives of the company have informed us that in December they broke even and in January made a profit of \$50,000; as of the end of January they claimed a net worth after taxes of \$635,000, including debentures, after giving effect to unrealized appreciation in their investment account of \$85,000 and the unrealized depreciation on repurchase agreements referred to above.

Bartow Leeds & Co.

The decline in net worth of \$164,000 between November 30, 1956 and May 31, 1955, the date of the previous statement filed with us, is attributed by the management to losses arising out of positions taken on three major occasions; one in Illinois Turnpike securities; another in an issue of municipals of rather low grade; and the third in United States Government securities. The position in United States Government securities referred to was taken by the firm around the middle of 1956 when it was believed that the market would rise after the steel strike was settled. We are told that all of these losses occurred prior to August and that the firm has been very conservative in taking positions since these experiences.

Summary

A sizable portion of the capital funds of D. W. Rich and Co. is tied up in assets unrelated to the securities business and thus actually is unavailable for its use in this respect. However, the improved liquidity reflected in the balance sheet and the substantial excess of market value over carrying value of listed stocks held by wholly owned subsidiaries justify continued confidence. The capital position of all of the other dealers appears adequate, with the

exception of Bartow Leeds & Co. Relations with this firm, which were terminated in April 1956, were reestablished in January 1957 on a trial basis and seem to be working out in a satisfactory manner, although the indicated net worth of only \$213,000 as of November 30, 1956 seems rather small as a basis for sustaining sufficiently continuous and sizable positions to make markets.

Federal Reserve Bank of New York
Securities Department
July 2, 1957

Confidential -- (F.R.)

COMPARATIVE SCHEDULE OF BALANCE SHEET DATA OF U. S. GOVERNMENT SECURITIES DEALERS

(thousands of dollars)

	Statement Date	Net Worth*		Net Position in U. S. Government Securities					Other Securities Owned
		Amount	Change During Previous 12 Months	Total Portfolio	Due or Callable		Due or Callable over 1 year		
					1 - 5 Yrs.	Over 5 Yrs.	Total	Number Times Net Worth	
First Boston Corp. (a)	12/31/56	23,521	+ 498	117,777	12,900	6,300	19,200	.8	5,751
C. J. Devine & Co. (b)	12/31/56	12,814	+ 557	119,309	13,431	8,838	4,593	-	12,749
Salomon Bros. & Hutzler (a)	10/ 1/56	7,500	-4,067	174,841	101,905	6,313	108,218	14.4	41,183
Discount Corp.	12/31/56	7,250	+ 76	65,381	6,300	4,100	10,400	1.4	0
C. F. Childs & Co., Inc. (b)	12/31/56	2,814	-2,466	89,992(g)	25,400	- 600	24,800	8.8	(g)
N. Y. Hanseatic Corp. (a)	10/31/56	2,676(d)	- 186	10,036	100	100	200	.1	- 5,063
Aubrey G. Lanston & Co., Inc.	4/30/57	2,027	+ 235	82,968	7,637	- 117	7,520	3.7	8,987
D. W. Rich & Co., Inc. (c)	10/31/56	1,784	+ 198	44,324	12,000	-2,000	10,000	5.6	1,711
W. E. Pollock & Co., Inc. (a)	12/31/56	739	- 9	1,749	1,500	200	1,700	2.3	438
Briggs, Schaedle & Co., Inc.	11/30/56	594(e)	- 19	30,323	10,200	500	10,700	18.0	0
Bartow Leeds & Co.	11/30/56	214	- 164(f)	229	NA	NA	NA	-	264

(a) Also general dealer in securities other than U. S. Government securities.

(b) Also dealers in municipal bonds.

(c) Also holding company.

(d) Includes \$500,000 notes due in over one year.

(e) Includes \$113,000 debentures due in over one year.

(f) Change since May 31, 1955, date of previous statement.

(g) Not segregated, but believed to be mostly U. S. Government securities - an informal daily report shows \$73,000,000 U. S. Governments.

* Or adjusted capital accounts.

NA Not Available.

Federal Reserve Bank of New York
 Securities Department
 July 2, 1957