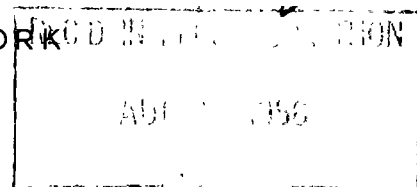


FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, N.Y.

RECTOR 2-5700



May 29, 1956

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 was transacted within the past year, 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, Aubrey G. Lanston & Co., Inc., we shall furnish you a supplement to this memorandum.

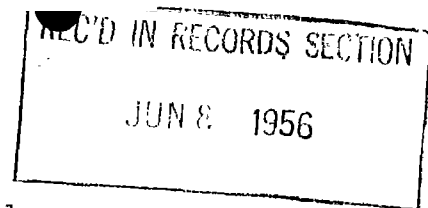
This memorandum is being sent to each member of the Federal Open Market Committee. Copies could be sent to those banks not at present represented on the Committee, if agreeable to the Chairman, which would allow two for your own use.

Very truly yours,

Robert G. Rouse, Manager
System Open Market Account

Enclosures (10)

CONFIDENTIAL -- (F. R.)



Financial and Operating Data
 United States Government Securities Dealers
Year 1955

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 has been transacted within the past year.

A. G. Lanston & Co. closes its fiscal year on April 30 and 1956 figures probably will not be available until June.

Results from an operating standpoint clearly were less satisfactory than in 1954. Only a few dealers submit profit and loss statements, but a number reported orally that they lost money or only broke even on their activities in U. S. Government securities. Profits were indicated in a few instances, but generally these were not so large as in the previous year, and, in at least one instance, a profit in other activities was partially offset by a loss on business in Governments.

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

First Boston Corporation

The annual report to stockholders contained the following operating results:

	<u>1954</u>	<u>1955</u>
Net income before dividends	\$3,171,903	\$3,322,239
Dividends	2,812,500	2,812,500
Net income after dividends	359,403	509,739

Although over-all operating results compare favorably with the previous year, no information is available as to whether or not activities in Government securities were profitable during 1955.

C. J. Devine & Co.

Mr. Carl J. Kreidler, partner, has advised us that during 1955 profits of around \$460,000 were derived from operations in municipal securities and upward of \$500,000 in Government securities. We were told that the partners would find it necessary to withdraw perhaps \$100,000 to \$125,000 in April 1956 to take care of income tax obligations.

Salomon Bros. & Hutzler

No specific information is available as to the results of operations during 1955. It is probable that a substantial portion of the increase in net worth which occurred represents profits from the securities business and to a much lesser degree net capital contributions. Over the course of the year five general partners, and two limited partners were admitted. Two general partners became limited partners.

Discount Corporation

The annual report contained the following operating figures:

	<u>1954</u>	<u>1955</u>
Net profits after provision for taxes and contingencies	\$1,164,246	\$550,674
Dividends	700,000	400,000
Special reserves	300,000(a)	-
Addition to undivided profits	164,246	150,674

(a) For past service benefits arising from amendment to the corporation's retirement plan eliminating employee contributions.

C. F. Childs & Co. Inc.

F. Newell Childs, formerly executive vice president, succeeded to the presidency of the corporation upon the death of his father, C. F. Childs, in March 1955. In June Mr. Childs informed us that it would be necessary to retire about \$300,000 of the company's capital to obtain cash to pay a tax liability.

The December 31, 1955 statement indicates 843 shares of class B stock were reacquired and held in the Treasury at a cost of \$295,050, presumably representing this withdrawal. However, the statement indicates an aggregate reduction in surplus of \$570,598 during the year, and it is possible that the \$275,548 difference may represent an operating loss. Early in February Mr. Childs informed us that there had been a further withdrawal of capital of \$2,000,000, representing a liquidation of the interest of his two sisters in the business--approximately \$1,000,000 each--represented by a special class of non-voting stock, thus reducing net worth to approximately \$3,280,000, which is still quite adequate in relation to the firm's business risks.

New York Hanseatic Corporation

The increase of \$801,000 in capital funds during the year was brought about as follows:

Capital	+ \$ 60,000
Paid in Surplus	+ 78,000
Earned Surplus	+ 13,000
Term Notes Payable	+ <u>650,000</u>
	+ <u>\$801,000</u>

New capital funds were obtained through the sale to an English firm with which they have close connections of 2,000 shares of Treasury stock and \$650,000 of serial notes (not subordinated).

We are advised by the company that results for 1955, with the exception of United States Government securities, were the best they have had. However, there was a loss in Government securities which reduced their earnings so that the over-all result was not quite so good as in 1954.

C. E. Quincey & Co.

Due to this dealer's practice of showing only one figure for net worth in their balance sheet, which may or may not include sizable reserves for taxes depending on the varying date of the audit, comparisons of net worth may be misleading. The June 30, 1954 statement figures of \$833,000 included an accrual of almost a whole year's unpaid taxes, whereas the September 30, 1955 figures are after payment of such taxes. Accordingly it is not possible to draw any conclusions as to operating results from the indicated decline of \$234,000 in net worth, and we have no further information on this point.

Wm. E. Pollock & Co. Inc.

The firm has informed us that the small decline in net worth is considered insignificant and that actually all phases of their business about broke even.

Briggs, Schaedle & Co. Inc.

The decline in net worth of \$64,000 over the year was brought about as follows:

Earned surplus	-\$44,000
Debenture bonds	<u>- 20,000</u>
	<u><u>-\$64,000</u></u>

If \$50,000 unrealized appreciation in repurchase agreements were allowed as part of net worth, the decline would be only \$14,000. Mr. M. G. Briggs, Chairman, has informed us that operations for the year resulted in a loss which is reflected in the decline in earned surplus.

D. W. Rich and Co., Inc.

The increase in net worth of \$221,000 during the year ended October 31, 1955 represents an increase of \$121,000 in earned surplus and reclassification as reserve for contingencies of \$100,000 out of amounts provided in past years for

Federal income taxes and renegotiation (which it appears will be concluded without further liability). Net working capital increased by \$258,000 to \$463,000. 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 \$2,850,000 on statement date compared with \$2,052,000 a year earlier (as of December 13, 1955 the market value was \$3,045,000). Including these securities at market value the net asset value of the subsidiaries was approximately \$2,100,000 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.

J. G. White & Co. Inc.

As may be seen from the comparative operating figures given below the company experienced a substantial loss during the year ended January 31, 1956:

	Year Ended	
	<u>1/31/55</u>	<u>1/31/56</u>
Income	\$408,367	\$108,944
Expenses	370,786	375,080
Net Income	37,581	-266,136
Dividends Paid	26,353	-
To Surplus	+ 11,228	-266,136

The firm has advised us that a \$92,000 profit from trading in securities--the largest income item--was almost entirely derived from their Government securities business. However, their operations in securities other than Governments were

not sufficiently productive to carry the overhead attributable to these activities. Furthermore, they took losses on a number of deals, principally in special over-the-counter stock situations in which they had taken substantial positions.

The balance of 4 1/2 per cent notes payable to the White Securities Corp., which at January 31, 1955 had amounted to \$23,890, was retired during the year and \$23,800 principal amount of 4 1/2 per cent preferred stock was issued in exchange. Of the shares issued in previous years under similar exchange agreements 141 shares carried at \$14,100 were retired during the year. It is understood that the officers put a substantial amount of their own funds at the disposal of the business, which appears to be reflected in an increase in 5 per cent preferred stock outstanding which amounted to \$103,000.

The change in net worth over the year ended January 31, 1956 is summarized below:

	<u>1/31/55</u>	<u>1/31/56</u>	<u>Change</u>
4 1/2% pfd. stock	\$ 99,900	\$109,600	+\$ 9,700
5 % pfd. stock	121,000	224,000	+ 103,000
Common Stock	1,000	1,000	-
Paid in Surplus	-	72,000	+ 72,000
Earned Surplus	-79,814	-345,950	- 266,136
Unrealized profit in trading account	<u>3,351</u>	<u>- 2,834</u>	<u>- 6,185</u>
Net Worth	<u>\$145,437</u>	<u>\$ 57,816</u>	<u>-\$ 87,621</u>

Summary

In view of the disappointing showing made by J. G. White and Co. and the possibility that their financial position would not provide adequate protection for their business in U. S. Government securities, it has been decided to curtail relations with them until further notice by refraining from contacting

them on transactions which we initiate and by declining to enter into repurchase agreements. Although 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, the additional values represented by listed stocks held by wholly owned subsidiaries justify continued confidence. The capital position of all of the other dealers appears adequate.

Federal Reserve Bank of New York
Securities Department
May 28, 1956

Confidential -- (F.F.)

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

(thousands of dollars)

	Statement Date	Amount	Net Worth* Change During Previous 12 Months	Net Position in U. S. Government Securities					
				Total Portfolio	Due or Callable		Due or Callable over 1 year		Other Securities Owned
					1 - 5 Yrs	Over 5 Yrs.	Total Number Times	Net Worth	
First Boston Corp. (a)	12/31/55	23,023	+ 510	126,369	9,800	6,100	15,900	0.7	29,601
C. J. Devine & Co. (b)	12/31/55	12,257	+ 937	100,802	84,598	16,695	101,293	8.3	18,095
Salomon Bros & Hutzler (a)	10/ 1/55	11,567	+2,797	115,901	12,747	63,587	76,334	6.6	83,350
Discount Corp.	12/31/55	7,174	+ 151	105,190	39,300	38,400	77,700	10.8	0
C. F. Childs & Co. Inc. (b)	12/31/55	5,280	- 571	97,896(g)	40,100	22,500	62,600	11.8	(g)
N. Y. Hanseatic Corp. (a)	10/31/55	2,862(d)	+ 801	31,876	10,000	1,200	11,200	3.9	8,632
D. W. Rich & Co. Inc. (c)	10/31/55	1,586	+ 221	34,394	4,900	4,000	8,900	5.6	1,452
C. E. Quincey & Co. (a)	9/30/55	599	- 234(f)	1,300	2,300	-1,000	1,300	2.2	6
W. E. Pollock & Co. Inc. (a)	12/31/55	748	- 7	12,557	100	1,200	1,300	1.7	4,907
Briggs, Schaedle & Co. Inc.	11/30/55	613(e)	- 64	28,389	6,300	400	6,700	10.1	0
J. G. White & Co. Inc. (a)	11/31/56	58	- 87	8,233	-	-	-	-	78

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

(b) Also dealers in municipal bonds.

(c) Also holding company.

(d) Includes \$650,000 notes due in over one year.

(e) Includes \$106,000 debentures due in over one year, but not \$50,000 unrealized appreciation on repurchase agreements.

(f) Change since June 30, 1954, date of previous statement.

(g) Not segregated, but believed to be mostly U. S. Government securities -- an informal daily report shows \$94,600,000 U. S. Governments.

* Or adjusted capital accounts.