

CONFIDENTIAL--(F.R.)

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To All members of the Federal Open Market Committee and to Presidents not now serving on the Federal Open Market Committee

April 25, 1958

From William F. Treiber,
First Vice President,
Federal Reserve Bank of New York

Subject: Dealers with Whom Business is Transacted for System Open Market Account-- Chas. E. Quincey & Co.

This memorandum supplements Mr. Rouse's memorandum of March 31, 1958, regarding the possibility of terminating trading relations with Chas. E. Quincey & Co. The firm is a dealer in U.S. Government securities but not in bankers' acceptances.

On April 14, 1958, Mr. Gilmartin of that firm called on Messrs Rouse and Marsh of the Federal Reserve Bank of New York to report that he had visited Washington on April 11, at which time he had talked with Chairman Martin and members of the staff of the Board of Governors of the Federal Reserve System to whom he presented the reasons for his unwillingness to make better markets in Treasury bills. As reported in Mr. Rouse's memorandum, the firm had been reluctant to take positions in Treasury bills in view of the high cost of the carry. Mr. Gilmartin told Messrs. Rouse and Marsh that while in Washington he had received no encouragement that the System might help U.S. Government securities dealers by making financing available on a more advantageous basis than at present.

Mr. Gilmartin reported that he had decided not to change the firm's practice with respect to trading in Treasury bills, even though such decision would lead to the termination of the trading relationship with the Federal Reserve Bank of New York. He continues to believe that the New York City banks have a primary responsibility for providing dealer financing on a more attractive basis and by accepting the termination of the trading relationship he hopes to be able to stimulate further consideration of the subject by the New York City banks and the Federal Reserve System.

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Mr. Gilmartin expressed the hope that the trading relationship with the Federal Reserve would not be terminated entirely since this would unnecessarily penalize Chas. E. Quincey & Co., of which he is just one partner. He hoped that while the firm might be excluded from the so-called "go-arounds", it would be able to do other business with the Federal Reserve Bank of New York.

Messrs. Rouse and Marsh made clear to Mr. Gilmartin that there is no intention on the part of the Federal Reserve arbitrarily to discontinue doing business with particular dealers. On the other hand, in conducting operations for the System Account, we are handicapped by the inclusion of firms which rarely are in a position to transact any business with us; Chas. E. Quincey & Co. has been in this category. It was agreed with Mr. Gilmartin that the Trading Desk would no longer have any responsibility for including his firm in "go-arounds", but that if the firm on its own initiative makes bids or offers which happen to fit our trading needs on a competitive basis, the Trading Desk might make trades pursuant to such bids and offers for the System Account or for other accounts.

With no further responsibility for soliciting bids or offers from Chas. E. Quincey & Co., this Bank might nevertheless, in its discretion, solicit from such firm bids or offers on a competitive basis where transactions are to be performed by this Bank for other than the System Account.

As for repurchase agreements with respect to Government securities, Mr. Gilmartin was told that the Federal Reserve Bank of New York would continue to make such agreements with Chas. E. Quincey & Co. on the same basis as such agreements are made with other nonbank dealers, namely, when at the initiative of the Trading Desk such agreements are considered desirable as a means of supplying funds to the market in accordance with System reserve objectives. As is the case with all other nonbank dealers, however, it would be expected, of course, that Chas. E. Quincey & Co. would keep the Trading Desk informed of its needs.