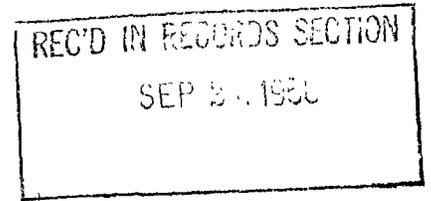


September 22, 1958

To Members of the Federal Open Market
Committee and Presidents of Federal
Reserve Banks not presently serving
on the Federal Open Market Committee

From R. G. Rouse, Manager, System Open
Market Account



Attached for your information is a summary of the discussion at the first meeting of the Technical Committee of the New York Money Market, which was held at the Federal Reserve Bank of New York on September 15, 1958. Also enclosed is a photostatic copy of an article in The Wall Street Journal of September 22, concerning action which the New York Stock Exchange has taken against the firm of Garvin, Bantel in connection with the firm's activities in financing speculation in Government securities earlier this year.

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September 22, 1958

From R. G. Rouse and R. W. Stone

Subject: Summary of Meeting of
Technical Committee of the
New York Money Market -
September 15, 1958.

The first meeting of the newly-formed Technical Committee of the New York Money Market was held at the Federal Reserve Bank of New York on September 15, 1958. The general subject of the first meeting was the recent disturbances in the Government securities market, and in particular the excesses of speculation that contributed so greatly to the development of those disturbances. This memorandum presents a brief summary of the discussion by the Technical Committee.

As suggested above, the discussion focused in good part on the speculative excesses that occurred in the Government securities market and, in particular, on a basic factor that made such excesses possible--the extension of too much credit on too easy terms. Funds were made available for speculative purposes both by bank and nonbank (mainly corporate) lenders, in good part through the intermediary of Stock Exchange firms. The group felt that, with one or two exceptions, the large New York banks were relatively cautious in extending loans for speculative purposes, and although a large volume of such loans was extended, these banks generally required higher margins than were demanded by other lenders. Corporations and many out-of-town banks, however, engaged in large-scale financing of unknown borrowers on little or no margin, and the funds advanced by corporations represented essentially short-term money secured by an obligation (the 2 5/8 per cent bonds) maturing in 1965.

It seemed to the Technical Committee that two general approaches might be explored in order to avoid or limit the possibility of a repetition of the massive speculation that occurred earlier in the year. First, it felt that an

effort should be made to "educate" corporations and banks as to the fundamental unsoundness of advancing funds without knowing for whom such funds are ultimately destined and without requiring the protection of adequate margins. As regards corporations, this message might most effectively be put across by a direct statement of the issues to top corporate management, and it was felt that a meeting of the Business Advisory Council of the Department of Commerce would be an excellent forum in which to have the case stated--preferably by a high official of the Treasury. It was also felt that the American Bankers Association is in a position to emphasize this point for the benefit of bankers.

The second approach which the Committee felt should be explored is the possibility of establishing a formal system of margin requirements on loans against Government securities. It is understood that the Stock Exchange is considering some tightening of its regulations in this respect, and this, of course, would be helpful, but obviously the Exchange would be unwilling to do it fully unless others took similar action. Even if the Exchange were willing to tighten its rules substantially, other avenues of abuse would still be open, and thus there might still be room for a more general system of margin regulations. It was recognized that many difficult problems arise in connection with margin requirements on loans against Government obligations. Perhaps the chief problem is that Government securities dealers would have to be exempted from the requirements in order to avoid a serious impairment of their normal and legitimate business. But this would raise the difficult question as to how to distinguish between firms which are to be regarded as dealers and those which are not. It was emphasized that such distinctions should have some basis in law, and the responsibility for administering a system of margin controls should not be imposed upon any regulatory authority unless some legal basis exists for the distinctions that would have to be

made. The group also felt that the administration of a system of margin regulations would be much facilitated if there existed some kind of association of Government securities dealers. It would be necessary for such an association to have some legal standing; no informal association organized by the dealers themselves on a voluntary basis would work, in the judgment of the Committee. Two members of the group have undertaken the preparation of memoranda, one on the subject of margin requirements, and the other on the possibility of the formation of a dealer association.

As regards the extension of credit by corporations against Government obligations, the suggestion was made that it might be worth looking into the possibility of instituting a reporting system under which a number of large corporations that lend funds against Governments would periodically report to the Federal Reserve System the volume of such loans outstanding.

We feel that the meeting was constructive, and believe that this feeling is shared by all who participated. The Committee plans to meet again after the two memoranda referred to above have been prepared in order to pursue further the discussion of margin regulations and the possibility of a dealer organization.

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