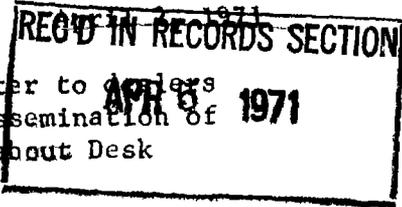


CONFIDENTIAL (FR)

To: Federal Open Market Committee
From: The Secretariat

Proposed letter to dealers
regarding dissemination of
information about Desk
transactions



Attached is a draft letter from the Account Manager to Government securities dealers concerning the dissemination of information on transactions with the Trading Desk. The Committee staff regards this letter as appropriate and in the absence of Committee member objection, the Manager would propose to forward it to each of the dealers shortly.

The draft letter is intended to remind dealers of the continuing need to respect the confidential nature of certain Desk transactions, namely those with "customer" accounts. However, the letter would liberalize the New York Bank's standing request for confidentiality by interposing no objection to the dissemination of certain limited information regarding Desk transactions for System Account.^{1/} In the latter respect the New York Bank would discontinue its long-standing policy of discouraging dealers from indicating to their customers and others the fact that the Desk was conducting transactions for System Account or from disclosing the type of such transactions (i.e. whether involving bills, coupon issues, repurchase agreements, or matched sale-purchase transactions). The Manager has concluded that it is impossible in practice to prevent the dealers from disclosing such information and that complete confidentiality is unnecessary in any event, especially in the case of market "go-arounds." On the other hand release of

^{1/} In recent years the Desk has followed the practice of indicating to the dealers whether a given transaction was for "customer" or for "System" account.

-2-

information for "customer" accounts--which dealers may sometimes be able to identify, for example, in a situation where a large foreign central bank is known to be acquiring or losing dollars--can be embarrassing both to the "customer" and to the System and in any event tends to violate accepted norms of confidentiality in business transactions. It should be added that most dealers scrupulously respect such confidentiality with regard to "customer" accounts, but as noted a number do not do so with regard to System Account transactions.

The proposed sanctioning of the latter practice would involve the immediate availability of certain information regarding current System Account transactions and would therefore imply a somewhat faster schedule for the release of this particular type of information than that approved by the Committee at its meeting on June 20, 1967 in conjunction with its consideration of the Public Information Act. In some cases the currently sanctioned lag is no more than one day as statement week data are published on the Thursday immediately following the end of the statement week. However, since some dealers are already reporting currently the type of transactions they undertake with the System Account and since no injury to the System has seemed to result, it would appear both harmless and equitable to permit all dealers to report such transactions. Federal Reserve officials who deal with the press would be similarly authorized. Indeed, it may be argued that Public Information Act considerations do not extend to the release of information by the dealers themselves, although the System can of

-3-

course seek to influence the conduct of the dealers in this regard.

If any Committee member should object to the proposed discontinuance of the traditional policy (as it affects System Account transactions) and the overall appropriateness of the attached letter, it is requested that he communicate his views to the Secretary. If objections are registered, the subject can be scheduled for discussion at an early FOMC meeting.

ATTACHMENT

D R A F T

4/2/71

Dear _____:

Dissemination of information about security market operations undertaken by the trading desk at the Federal Reserve Bank of New York has caused problems occasionally. Over the years, our policy has been to discourage dealers from disclosing that the Fed is in the market. We have emphasized especially the need to maintain confidentiality about transactions for customer account. In requesting confidentiality, we have asked those with whom we have traded not to discuss our operations outside their organizations.

There are several reasons for preserving confidentiality. Loose talk about transactions for customer account can be embarrassing for our customer, frequently a foreign central bank or government, as well as for this Bank. Operations for System account are, of course available weekly to all on a uniform and equal basis. In contrast, partial disclosure of the desk's operations to a few can lead to inaccurate impressions of our transactions, and can produce distorted interpretations of the intent of the operations. These interpretations, based on less than complete information, may mislead all but the most sophisticated analysts and investors.

After reviewing questions raised by experience, we have concluded it is essential for dealers to treat knowledge of our transactions for customers as strictly confidential. This rule should apply whether the transaction is executed by a general "go-around" of the market or, because of the limited nature of the transaction, it is executed with only a few dealers.

However, with respect to System Account operations, we have concluded that efforts to keep such transactions confidential are probably fruitless, especially when the transactions are undertaken in a "go-around" of the market. Accordingly, we will no longer interpose any objection to your informing customers, other market contacts, or the press that the desk has, for example, bought or sold Treasury bills or coupon issues, arranged repurchase agreements, or matched sale-purchase transactions.

Dealers who choose to disseminate information about the desk's operations for System Account should, of course, be aware that Federal Reserve System operations are not by themselves indicative of the central bank's objectives in the money market. Most System Account operations are undertaken to offset the effect on bank reserves of factors beyond Federal Reserve control, such as changes in float or currency.

-2-

As you know, it is the net effect of all the noncontrollable factors and the System's trading operations that produces an increase or decrease in the banking system's cash reserves, and thus influences the money market. There are probably many occasions when full knowledge of factors affecting reserves, or awareness of all System transactions, is not immediately available to the market. Considerable caution is advisable in making immediate interpretation of System transactions even in an attempt to be helpful to customers and others. We would urge, therefore, that you re-emphasize this point to your traders and salesmen with the hope that it might help restrain the tendency to overinterpret the significance of any specific System Account operations.

Sincerely,

Alan R. Holmes
Senior Vice President