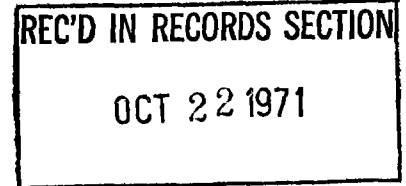




BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D C 20551



October 21, 1971

CONFIDENTIAL (FR)

TO: Federal Open Market Committee  
FROM: Mr. Holland

Attached for your reference is a statement of tentative positions reached by the Joint Treasury-Federal Reserve Staff Committee on the Government Securities Market concerning the questions raised by the General Accounting Office study of dealer statistics which was released to the press by Congressman Patman on October 18, 1971.

A handwritten signature in cursive script, reading "Robert C. Holland", is located below the typed name.

Robert C. Holland,  
Secretary,  
Federal Open Market Committee.

Attachment

CONFIDENTIAL (FR)

October 21, 1971

Tentative Position of Joint Treasury-Federal Reserve Staff  
Committee Regarding GAO Study of Dealer Statistics

The Joint Treasury-Federal Reserve Staff Committee on the Government Securities Market met on Tuesday, October 19, to give consideration to the questions raised by the General Accounting Office study of dealer statistics which was released to the press by Congressman Patman on October 18, 1971. At that meeting, the Joint Committee agreed on the following tentative positions:

A. The entire array of data provided to the Treasury and the Federal Reserve by the dealers has proved generally adequate for Treasury and Federal Reserve needs.

1. Of the three broad categories of dealer data being collected, the most valuable is the daily information (dealer market price quotations, positions, borrowings, and transactions totals).
2. Also very valuable are the annual audited financial statements provided by each nonbank dealer at the end of its fiscal year (bank dealer departments are scrutinized in the course of regular bank examinations); the Trading Desk utilizes these reports in its credit analysis of each dealer with whom it does business.
3. The third category of dealer data--and the particular data series criticized in the GAO study -- annual reports of dealer income, expenses and balance sheets;

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a. serves useful public policy purposes, in helping officials to judge the general health of the Government securities market - - more specifically,

- (1) the capacity of the dealers to service Treasury financings,
- (2) the capacity of the dealers to service the open market operations of the Federal Reserve,
- (3) the appropriateness of the various procedures, terms, and conditions which the Federal Reserve and the Treasury utilize in their operations with dealers (which, it should be noted, account for only a very small proportion of total dealer activity),
- (4) the general ability of dealers to provide an effective market place in which the public can accomplish its desired transactions in U.S. Government securities.

b. The income, expense and balance sheet data provided by the dealers, while suffering from various shortcomings, has nonetheless been sufficient to meet the minimum public policy needs listed under item 3.a above.

c. There are some improvements in these data, including some suggested by the GAO, that might be sufficiently beneficial to justify the cost of making them.

B. Members of the Joint Staff Committee propose to meet with

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appropriate representatives of the GAO to question them further concerning various details of their report.

C. Members of the Joint Staff Committee propose to meet with appropriate representatives of the Government securities dealers to discuss problems pointed out by the GAO study and possible improvements in reporting procedures to deal with those problems.

D. The dealer statistics problems raised by the GAO are not regarded as major, but the Staff Committee will continue to investigate the situation and to recommend such reporting improvements as may seem justifiable.

E. The following brief background papers have been commissioned:

1. Statistical summary placing dealer trading with the Federal Reserve and the Treasury in perspective (Board staff),
2. Statistical analysis of the varying profitability of individual dealers, including to the extent feasible estimates of dealers' earnings stemming from trading activity, interest rate margins between the cost of carrying positions and the current earnings thereon, and capital gains from positions (New York Bank staff),
3. Analysis of current staff thinking as to reasonable improvements that might be made in dealer balance sheet, income and expense data (New York Bank staff),
4. Reasons for use of Government securities dealers in Treasury debt management operations (Treasury staff),

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5. Reasons for use of Government securities dealers in conduct of System open market operations (Board staff),
6. Summary of criteria for selecting dealers with whom the Trading Desk will conduct business (New York Bank staff).

JOINT TREASURY-FEDERAL RESERVE STAFF  
COMMITTEE ON THE GOVERNMENT SECURITIES  
MARKET

Treasury Department:

Mr. Bennett

Mr. Adams

Federal Reserve Board:

Mr. Holland

Mr. Axilrod

Federal Reserve Bank of New York:

Mr. Sternlight

(Absent) Mr. Holmes