

Excerpt from minutes of the meeting of the executive committee of the
Federal Open Market Committee held on February 29, 1944.

At the conclusion of the discussion, upon motion duly made and seconded and by unanimous vote, the statement of terms was approved as follows as a recommendation of the executive committee to the full Committee, with the understanding that the full Committee would be requested, in the event of the adoption of the suggested terms, to authorize the executive committee to (1) make such minor changes in the statement as appeared to be desirable following discussion at the meeting of the full Committee, (2) make the terms effective at such time as in the judgment of the executive committee appeared desirable, and (3) issue such instructions to the New York Bank in connection therewith as might be required:

"The Federal Open Market Committee has directed the Federal Reserve Bank of New York to transact business in United States Government securities on behalf of the open market account of the Federal Reserve System only with reputable brokers and dealers in such securities who qualify in the manner set forth below.

"A Qualifications.

"In determining whether a person (individual, partnership or corporation, including a bank) is a qualified broker or dealer with whom the Federal Reserve System will transact business, and the extent to which business will be transacted with such person, the following factors will be taken into consideration:

- (a) Integrity, knowledge, and capacity and experience of management;
- (b) Observance of high standards of commercial honor, and just and equitable principles of trade;
- (c) Willingness to make markets (over-the-counter) under all ordinary conditions;
- (d) The volume and scope of business and the contacts such business provides;
- (e) Financial condition and capital at risk of business;
- (f) The reliance that can be placed on such broker or dealer to cooperate with the Bank and the Federal Open Market Committee in maintaining an orderly market for Government securities;

"to refrain from making any recommendations or statements or engaging in any activity which would encourage or stimulate undue activity in the market for Government securities; and to refrain from disclosing any confidential information which he obtains from the Bank or through his transactions with the Bank.

"B. Agreement.

"In order to qualify further as a broker or dealer recognized as eligible to transact business with the Federal Reserve Bank of New York acting on behalf of the open market account of the Federal Reserve System (hereinafter referred to in this capacity as 'the Bank'), each such person must agree in writing to comply with the following terms and conditions:

1. He will promptly furnish the Bank with a statement showing as of the close of business each business day:
 - (a) The total amount of money borrowed (directly or indirectly);
 - (b) The par value of all Government securities borrowed;
 - (c) His position, both long and short, in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank);
 - (d) The volume of transactions during the day in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank); and
 - (e) Such other statistical data as in the opinion of the Bank will aid in the execution of transactions for the System open market account.
2. At or before the completion of each transaction with the Bank, he will furnish the Bank with a written notification disclosing whether he is acting as a broker for the Bank, as a dealer for his own account, as a broker for some other person, or as a broker for both the Bank and some other person. In the absence of a special agreement to the contrary with the Bank with respect to a particular transaction, he will not act as broker for any other person in connection with any transaction with the Bank.

- "3. In the absence of special arrangements with the Bank, delivery of securities will be made at the office of the Bank before 2:15 p.m. on the next full business day following the day of the contract and all payments by the broker or dealer will be in immediately available funds.
4. He will furnish the Bank not less frequently than once during each calendar year with a report of his financial condition as of a date not more than 45 days prior to the delivery of the report to the Bank in form acceptable to the Bank and prepared or certified by a public accountant acceptable to the Bank and upon the request of the Bank he will furnish a statement of condition as of a stated recent date as shown by his books.
5. Unless the Bank shall have informed him of the Bank's desire to purchase or sell a particular issue of Government securities, he will not solicit from any other person offerings of or bids for any issue of Government securities for the purpose of placing himself in a position to offer to sell to or buy from the Bank securities of such issue.

"In any case in which the Bank has concluded that a recognized broker or dealer no longer meets the qualifications set forth above or has willfully violated or failed to perform any of the terms and conditions set forth in the agreement, the Bank shall decline to transact any further business with such broker or dealer."

Excerpt from the minutes of the meeting of the Federal Open
Market Committee held on February 29, 1944

Chairman Eccles stated that in a meeting just before this meeting the executive committee approved a recommendation to the full Committee with respect to the terms upon which the Federal Reserve Bank of New York would transact business with dealers in United States Government securities for the System open market account, and that this action had been taken by the executive committee with the understanding that the full Committee would be requested, in the event of the adoption of the suggested terms, to authorize the executive committee (1) to make such changes in the form of the statement of terms as appeared to be desirable following the discussion of the matter at this meeting, (2) to make the terms effective at such time as in the judgment of the executive committee appeared to be desirable, and (3) to issue such instructions to the New York Bank in connection therewith as might be required, including possibly the requirement that, if a dealer were removed from the approved list of dealers for violating the terms, he should not be restored to the list without the approval of the executive committee.

The recommendation of the executive committee was read, and in the ensuing discussion Mr. McKee inquired whether the language of the proposed terms was broad enough to cover field representatives of dealers. There was general concurrence in the opinion that the suggested terms would be applicable to all representatives and agents of a qualified dealer and that it would be his responsibility to acquaint his personnel with the meaning of the proposed terms and the extent of his commitment in subscribing to them.

Chairman Eccles stated other ways that had been discussed of meeting

the problem of the relationship with the dealers included (1) the establishment at the Federal Reserve Banks and their branches of an organization to handle purchases and sales of Government securities now handled by the dealers, (2) the adoption of a policy requiring that transactions handled by the dealers for the System open market account be on a brokerage basis only, and (3) the inclusion in the Board's annual report to Congress of a statement of the problem created by the present situation in which there is no express statutory basis upon which dealers in Government securities can be subjected to adequate regulation. He also said that the executive committee felt that the procedure recommended by it was the most satisfactory, at least for the present, that it might be necessary at a later date to consider modification of the procedure or adoption of one of the other available alternatives, but that it was felt that if the dealers cooperated in the proposed arrangement, as the executive committee felt confident they would, the procedure should work satisfactorily.

There was a discussion of a second question raised by Mr. McKee whether, in the event of large shifts of deposits following the war which would necessitate substantial sales of securities by the banks losing the deposits, the existing dealer organization, operating under the terms proposed by the executive committee, would be able to furnish a satisfactory market for such sales, particularly by the smaller banks, and whether the Federal Reserve Banks should not be prepared to handle that business.

In that connection Mr. Davis stated that there had been some comment in the Eighth Federal Reserve District about the inability of holders of 2-1/2 per cent bonds, which are ineligible for bank investment, to find

a ready market for small lots of such securities.

Messrs. Sproul and Rouse stated that there was no question about the willingness of the System account to take the 2-1/2 per cent bonds of restricted marketability, particularly in small lots, that a substantial amount of these issues had been purchased, but that it had been the custom of the New York Bank not to facilitate the sale of larger blocks of \$250,000 and up merely to enable the seller to purchase similar new bonds as part of the war loan drive, and that in such cases it had been suggested that the dealer take an order for the sale and try to find a customer in the market.

Mr. McLarin inquired whether dealer banks in other cities, such as New Orleans or Dallas, could qualify under the proposed terms. Mr. Rouse replied in the affirmative, stating that it was not expected that many of such banks would be interested in qualifying.

Mr. Davis inquired whether it was the intention under the recommendation of the executive committee to qualify all who met the requirements proposed in the recommendation or only the dealers presently having relationships with the Federal Reserve Bank of New York. Mr. Rouse said that the former was intended, and it was agreed that the final draft of statement should make this point entirely clear.

Mr. Leedy inquired whether the proposed procedure would have any effect on the present practice of the Federal Reserve Banks of purchasing and selling Government securities as agents for their member banks, and it was agreed that it would not.

In a discussion of the steps to be taken to put the suggested procedure into effect, there was unanimous approval of the suggestion by

Mr. Sproul that the Treasury should be informed of what the committee proposed to do so that any objections that the Treasury might have could be considered before the arrangement was made effective.

At the conclusion of the discussion, upon motion duly made and seconded and by unanimous vote, the proposed terms were approved in substance with the understanding (1) that the executive committee was authorized to make such changes in the form of the statement of terms as appeared to be desirable, (2) that the procedure would be put into effect at such time as in the judgment of the executive committee such action appeared to be desirable after having informed the Treasury of the proposed arrangement, and (3) that the executive committee was authorized to issue such instructions to the Federal Reserve Bank of New York as agent for the System account in connection with the proposed procedure as appeared to the executive committee to be desirable, including the manner in which advice of the arrangement was to be sent to dealers who might qualify thereunder.

Excerpt from minutes of the meeting of the executive committee of the
Federal Open Market Committee held on February 26, 1948.

Mr. Rouse stated that, because the Federal Reserve Banks had been the principal buyers of Government securities in the recent period and most transactions in Treasury bonds were at the support prices put into effect on December 24, 1947, some dealers that were not qualified to do business with the System open market account had complained that they had nowhere to turn for the sale of Government securities and that they were being forced out of business. He said that these dealers did a local, as distinguished from a national, business and therefore could not qualify to do business with the System open market account under the terms established by the Federal Open Market Committee in 1944, that the dealers concerned felt that these terms should be given a more liberal interpretation or should be changed to eliminate the alleged discrimination, and that, while the matter had been given very full consideration at the Federal Reserve Bank of New York, it was felt that there was no basis upon which a recommendation could be justified that such action be taken. One of the suggestions that had been made to meet the situation, Mr. Rouse said, was that qualified dealers be permitted to split commissions with the unqualified dealers, and although that proposal had also been given very careful consideration and had been studied by Mr. Tiebout, Assistant General Counsel of the Federal Reserve Bank of New York, and Mr. Vest, General Counsel of the Federal Open Market Committee, no satisfactory solution had been found. He added that Mr. Tiebout had submitted an opinion to the effect that such an arrangement would raise the question of the application of the Clayton Antitrust Act and, in order to provide the

necessary controls, it would be necessary to make the unqualified dealers sub-agents of the Federal Reserve Banks which would involve entering into an arrangement which the New York Bank would not recommend. Mr. Rouse made the further statement that he was much less concerned about the problem now than when it was first raised for the reason that, on the basis of informal reports made to him by two of the unqualified dealers, the situation is righting itself and they were not suffering serious losses of earnings.

He said that an application from the Northern Trust Company of Chicago to qualify as a dealer had been denied on the basis that its business was confined largely to the Chicago area and was not national in scope, that an application had been received also from the Chemical Bank and Trust Company of New York, and that on the basis of preliminary information it appeared that that bank would be able to qualify.

Chairman Eccles suggested that the Federal Reserve Bank of New York submit to the executive committee a memorandum of the consideration which it had given to the problem presented by the unqualified dealers, together with a recommendation as to what, if any, action might be taken. Such a recommendation, he said, could be discussed at the next meeting of the executive committee and a recommendation made to the full Committee so that in the event of further complaint it could be shown that the position of the Committee had been taken only after complete consideration of all of the questions involved.

Upon motion duly made and seconded
and by unanimous vote, this suggestion
was approved.

Excerpt from minutes of the meeting of the executive committee of the
Federal Open Market Committee held on April 21, 1948.

Before this meeting Mr. Rouse sent to the members of the executive committee, pursuant to the action taken at the meeting of the committee on February 26, 1948, a memorandum prepared at the Federal Reserve Bank of New York under date of April 15, 1948, concerning the relationship of the Federal Reserve Bank of New York as agent for the System open market account with dealers in United States Government securities and the problem presented by the unqualified dealers. After reviewing (1) the procedure developed by the Federal Reserve Bank of New York in 1939, (2) the action of the Federal Open Market Committee in 1944 in approving a statement of terms upon which the Federal Reserve Bank of New York, as agent for the System account, would transact business with brokers and dealers in United States Government securities, and (3) recent experience under the statement of terms, the memorandum stated that the problem of the smaller dealers appeared to be less formidable and more temporary than some had suggested and that after reviewing the terms and conditions of qualification requirements established by the Federal Open Market Committee in 1944 and examining the market situation which had recently developed, the Federal Reserve Bank of New York had no changes to recommend either with respect to the substance of the conditions or their interpretation. The reasons for this conclusion were stated in the memorandum.

Mr. McCabe inquired whether there was much pressure at the present time from the unqualified dealers for action, and Mr. Rouse responded that there were only three or four dealers who had commented on the

question recently and that they could not qualify because they did not do a national business and, in some instances, did not have the required capital to operate on a national basis and take positions in securities from time to time as would be required of dealers who assumed the responsibility of making a market for securities. He expressed the view, however, that since market prices had moved away from the support prices the smaller dealers were losing little business because of their inability to deal with the Federal Reserve Bank. He added that none of the dealers had followed up the suggestion that they be permitted to split fees with qualified dealers and that apparently that suggestion had been forgotten since the market moved away from the support prices. He also said that none of the small dealers appeared to favor a solution of their problem by merging in order to provide capital in an amount which would justify their undertaking to do a national business.

There was a general discussion of the consideration which had been given in the past to changes in the functions performed by the dealers and the Federal Reserve Banks, in relation to the Government security market, as well as of the conditions which prompted the adoption in 1944 of the statement of terms upon which the Federal Reserve Bank of New York would do business with brokers and dealers for the System open market account.

At the conclusion of the discussion, upon motion duly made and seconded, and by unanimous vote, the executive committee concurred in the conclusion reached in Mr. Rouse's memorandum and agreed to recommend to the full Committee that no change be made at this time in the statement of terms or in their interpretation.

Excerpt from minutes of the meeting of the Federal Open Market
Committee held on May 20, 1948.

Reference was then made to the recommendation made by the executive committee of the Federal Open Market Committee as recorded in the minutes of its meeting on April 21, 1948, that no change be made at the present time in the statement of terms established by the Federal Open Market Committee in 1944 upon which the Federal Reserve Bank of New York, as agent for the System account, transacts business with brokers and dealers in United States Government securities.

Excerpt from minutes of the meeting of the Federal Open Market
Committee held on March 1, 1950.

Reference was made to the published terms on which the Federal Reserve Bank of New York transacts business with qualified dealers in United States Government securities for the open market account of the Federal Reserve System. Mr. Rouse said that the agreement seemed to be working satisfactorily, that there had been no complaints for some time from dealers who were unable to qualify under the statement of terms, and that he had no changes to suggest. In response to a question from Mr. Eccles, he also reviewed the circumstances relative to whether certain dealers qualified for transacting business with the System account.

Following a discussion, upon motion duly made and seconded, and by unanimous vote, it was agreed that no change in the statement of terms would be made at this time.