

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 69-102
April 29, 1969

PROBLEM OF "FAILS" IN U. S. GOVERNMENT SECURITIES MARKET

**To All Banking Institutions and Others Concerned
in the Eleventh Federal Reserve District:**

There is quoted below the text of a self-explanatory letter from The New York Clearing House Association regarding the problem of "Fails" in the Government securities market:

This is to request your assistance in dealing with the problem of "fails" in the Government securities market—a problem that affects us all. "Fails" on deliveries between banks, brokers, and dealers—transactions in securities that are not completed by the settlement date—have widespread repercussions in terms of the funds that are not collected when due, the need to re-present securities at a later date, and the burden for all parties concerned in carrying and controlling these items pending final delivery and payment.

The immense dollar amounts involved in the Government securities market and the increasing volume levels that characterize that market demand the closest cooperation between buyers and sellers, and their respective banks or brokers, to avoid delays and resulting losses to one or both of the parties to the transaction.

In many instances "fails" in the Government securities market are caused by *the lack of timely and/or complete instructions* from a customer to his bank or broker to receive or deliver securities on the settlement date. Without such timely instructions a considerable amount of wasteful churning takes place, with securities being tendered, records searched and telephone calls made, often to no avail. The repeated resubmission of securities involved in such transactions compounds the confusion, causing a build-up of back-office paper work and taking up much clerical time that could be devoted to trades in good order. It also delays the desired result, that is, the movement of money into or out of your account.

Your help is urgently needed in order to eliminate the costly fail problem in the Government securities market, and to restore prompt, efficient delivery schedules that will aid customers, dealers, and clearing and custody agents. To accomplish this, we request that you:

- One:** Enter your buy or sell order as early in the day as possible.
- Two:** Dispatch instructions immediately to your bank or broker to receive or deliver the securities you traded. Don't await receipt of a confirmation—it is important that you dispatch your instructions on the date the trade is made. With problems of mail delivery, notification by telephone, teletype, or telegram is much more dependable and is essential in connection with cash trades and next day settlements.
- Three:** Be sure the instructions you give your bank, and the dealer involved, are complete and identical. That means you must include:
 - A full description of the other party to the transaction, including any necessary sub-account information.
 - Any particulars of your account that your bank or a delivering dealer may require to identify it correctly, including safekeeping, or custody account number.
 - A complete description of the security issue.
 - The exact net payment amount.
 - The Settlement and trade dates.

Custodian banks have revised their procedures to act promptly upon instructions from customers, and Government securities dealers have streamlined their processing of trades to expedite the delivery and payment process. Furthermore, the Federal Reserve Bank of New York—which fully supports the foregoing program—has extended the Federal Reserve System's national wire network through a local Government securities clearing arrangement, to include Government securities transfers within New York City, and the System is moving ahead with plans for the installation of high-speed computer switch facilities throughout the country by the end of this year.

Despite this progress, however, a most important factor in dealing with the problem of fails will continue to be the need for timely and complete instructions.

By working together we should be able to resolve many of the problems that lead to fails. We hope we may count on your full cooperation in this endeavor.

Yours very truly,

P. E. Coldwell

President