

**FEDERAL RESERVE BANK  
OF NEW YORK**

AT-10663  
October 20, 1993

**PURCHASE AND SALE OF U.S. GOVERNMENT  
SECURITIES IN THE SECONDARY MARKET**

*To All Depository Institutions in the Second  
Federal Reserve District, and Others Concerned:*

The Board of Governors of the Federal Reserve System has approved a proposal to consolidate at the Federal Reserve Bank of Chicago the purchase and sale of securities in the secondary market, effective January 1, 1994. Accordingly, printed on the following pages is the text of the Board of Governors' notice, as published in the *Federal Register* of October 1.

WILLIAM J. McDONOUGH,  
*President.*

## FEDERAL RESERVE SYSTEM

[Docket No. R-0804]

### Consolidation of Purchases and Sales Service at Federal Reserve Bank of Chicago

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Notice of final action.

**SUMMARY:** The Board has approved the proposal by the Federal Reserve Banks to consolidate the priced secondary market purchases and sales of securities service, which is currently provided by eight Reserve Banks, at the Federal Reserve Bank of Chicago. The consolidation will improve efficiency and contain the costs of providing this service to depository institutions nationwide. The service will be included as a part of the Federal Reserve's priced book-entry securities service, beginning January 1, 1994.

**EFFECTIVE DATE:** January 1, 1994.

**FOR FURTHER INFORMATION CONTACT:** Charles W. Bennett, Assistant Director (202/452-3442), Gerald D. Manypenny, Manager (202/452-3954), or Michael L. Bermudez, Financial Services Analyst (202/452-2216), Division of Reserve Bank Operations and Payment Systems, Board of Governors of the Federal Reserve System. For the hearing impaired only, Telecommunications Device for the Deaf (TDD), Dorothea Thompson (202/452-3544), Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551.

**SUPPLEMENTARY INFORMATION:** The purchases and sales service consists of the purchase or sale of Federal Reserve book-entry-eligible securities on the secondary market. Purchases and sales are conducted for institutions' own securities as well as for those of customers. Prior to the passage of the Monetary Control Act of 1980, eleven Reserve Banks offered the service to member banks. Generally, smaller depository institutions with no direct relationship with a securities broker or dealer have relied upon Reserve Banks. With the increased acceptance of book entry and the declining availability of Federal agency securities in definitive form, the requests for purchases and sales evolved from the purchase and

sale of definitive securities to primarily book-entry securities. Demand for purchases and sales has declined steadily over the past few years, from 74,000 transactions in 1980 to 18,400 transactions in 1992. The service is currently offered by eight Reserve Banks. These are Boston, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, and Dallas with the Chicago Reserve Bank handling more than half of the System's annual volume.

The Board has approved consolidation of the purchases and sales at the Federal Reserve Bank of Chicago. Consolidation of the purchases and sales provides an opportunity to reduce cost with little, if any, impact on the level of service offered to depository institutions. All seven Reserve Banks now offering the service are expected to consolidate by early 1994.

The Chicago Reserve Bank is prepared to support a consolidated purchase and sale operation at Chicago. A toll-free telephone number will be available nationwide for depository institutions to initiate transactions with the Chicago Reserve Bank. A depository institution's representative, with proper authorization on file with the Chicago Reserve Bank, would initiate orders to purchase or sell securities by telephoning the Chicago Reserve Bank on the recorded toll-free line. After determining that an order to sell securities is authentic, the Chicago Reserve Bank would confirm that the securities are held in book-entry form at the Bank,<sup>1</sup> a minimum of two dealers would be contacted if the transaction is an odd lot, and a minimum of five dealers would be contacted for round-lot transactions. The dealer submitting the best price (bid) would be given the order.<sup>2</sup> Orders for the purchase of securities for depository institutions are also received via recorded telephone line and verified for authenticity.<sup>3</sup> Like-

<sup>1</sup> When depository institutions located outside of the Chicago Head Office region wish to sell securities, Chicago would request that the institution selling the securities or the Reserve Bank holding the book-entry account for the requesting depository institution transfer the securities to Chicago, thus reducing the book-entry holdings at the sending Reserve Bank and increasing the book-entry holdings at Chicago. The offsetting payment is settled through the Inter-District Settlement Fund on settlement day.

<sup>2</sup> Settlement of transactions in United States Treasury or Agency securities of \$100,000 or more normally occurs on the business day following the date of execution of the order. Upon request, if an order is received before 11:00 a.m. (Central Standard Time), the Chicago Reserve Bank endeavors to execute the orders for settlement on the same day as the orders are placed.

<sup>3</sup> Purchases for \$500,000 or more are authenticated by telephoning another authorized

securities issues (by CUSIP number) would be combined by Chicago, whenever possible, to obtain the best price. For purchases, the dealer submitting the best price (offer) would be given the order.

### Summary of Comments

In June 1993, the Board requested public comment on the proposal by the Federal Reserve Banks to consolidate the purchases and sales service at the Federal Reserve Bank of Chicago (58 FR 36412, July 7, 1993). To ensure that appropriate consideration is given to any public policy issues arising from a proposal to consolidate a priced service across District lines, the Board adopted factors to be considered when evaluating such a proposal. Commenters were asked to respond to each of the factors adopted by the Board.<sup>4</sup>

The Board received four comment letters in response to the proposed consolidation.<sup>5</sup> Both non-Federal Reserve Bank commenters supported the Board's proposal to consolidate purchases and sales. One commenter wrote: "It is refreshing to see proposals to decrease costs to the banking system being addressed versus proposals to add more costs to an already overburdened system." The other commenter, although supportive of the proposal to consolidate at a Federal Reserve Bank, objected to the consolidation at the Chicago Reserve Bank for reasons not related to this proposal. The Chicago Reserve Bank was selected as the proposed consolidation site because it already processes much of the System volume and because its existing level of automation for this service would enable it to absorb all of the System's purchases and sales volume without increasing staff. Existing Chicago Reserve Bank staff and facilities would be sufficient to process the consolidated volume; its processing procedures remain efficient and would remain essentially unchanged. Based upon the analysis contained in the June 1993

person of the requesting depository institution other than the original caller.

<sup>4</sup> The Board's factors to be considered when evaluating a proposal to consolidate a priced service across district lines are:

- (1) Maintenance or improvement of cost recovery in a service,
- (2) Improvement of the efficiency of Federal Reserve Bank operations,
- (3) Maintenance or improvement of the level or quality of service,
- (4) Responsiveness to changes in the financial-services industry,
- (5) Effect on private-sector providers of the service, and
- (6) Effect on users of the service.

<sup>5</sup> Two of the four comments received were from Reserve Banks and were not considered for the purpose of this summary.

request for comment, the Board believes that the Chicago Reserve Bank would provide a comparable or higher level of service to depository institutions nationwide at the same or lower fee. Consolidation would also have little effect on private-sector providers of the service.

#### **Competitive Impact Analysis**

Given the trivial volume processed by all the Federal Reserve Banks, consolidation will not have a material or adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing purchase and sale services.

By order of the Board of Governors of the Federal Reserve System, September 27, 1993.

**Jennifer J. Johnson,**

*Associate Secretary of the Board.*

[FR Doc. 93-24141 Filed 9-30-93; 8:45 am]

BILLING CODE 6210-01-9