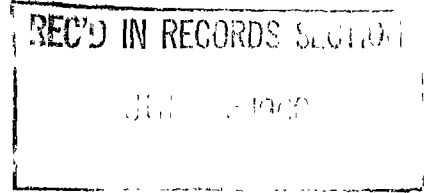




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



July 1, 1960.

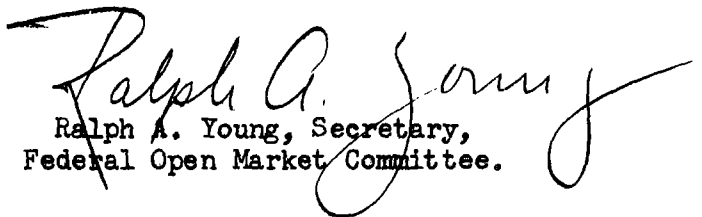
CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Young

There is enclosed a copy of the memorandum prepared by the staff on recent economic and financial developments in the United States and abroad for the meeting of the Federal Open Market Committee to be held on Wednesday, July 6, 1960, at 10:00 a.m.

Also enclosed is a memorandum giving background information with respect to topic 7 on the agenda for the meeting relating to standardized financial statements of reporting Government securities dealers.


Ralph A. Young, Secretary,
Federal Open Market Committee.

Enclosures

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RECORDED IN RECORDS SECTION

TO Federal Open Market Committee
FROM: Mr. Young

July 1, 1960. 5 11

With Mr. Riefler's memorandum of October 5, 1959, regarding the Treasury-Federal Reserve study of the Government securities market, there was distributed an Inventory of Areas for Possible Administrative Action, which suggested certain steps for obtaining more adequate information about the market. One of these was: "Undertake preparation of recommendations for, or manual of, standard accounting practices for Government security dealers, designed to facilitate daily reporting, at minimum cost to dealer respondents, of needed current statistics and periodic reporting of dealer's financial and earnings position on standard basis. This task might be accomplished by, say, one or two representatives of the American Institute of Accountants, chosen for their expertness in security market accounting, and two senior accountants from Federal bank examination staffs. Also, expense of the undertaking might well be borne by the Federal Reserve and the manual made available to dealers as a Federal Reserve service in the public interest. It is assumed, of course, that preparation of the accounting standards of the manual would be carried forward with the close cooperation of the dealers." Entries regarding the general program for obtaining more adequate information about the Government securities market appear in the minutes for October 13, 1959, (pages 40-51; November 4, 1959, pages 2-10; and November 24, 1959, page 36.)

The report of the Steering Group dated January 5, 1960, regarding the setting up of a reporting system for obtaining information about the Government securities market (transmitted with my memorandum of January 7, 1960) included a statement that one element of an adequate informational program included the development of composite financial statements for Government securities dealers for such public information use as experience shows to be appropriate. It also contained a recommendation that among the reports to be submitted by dealers there be a statement of financial condition having standardized content and form, such reports to be submitted quarterly, but one each year to be certified by an independent firm of accountants in the case of nonbank dealers. Copies of such financial statement reports of nonbank dealers would be available to the Trading Desk of the Federal Reserve Bank of New York for the purpose of appraising credit worthiness and financial standing.

Discussion at the January 12 Open Market meeting was concerned primarily with the initial steps in putting the statistical program into effect, and the minutes do not record a specific discussion at that meeting of the recommendation for obtaining balance sheet information four times a year.

With the initiation of the uniform statistical reporting program in the Market Statistics Department at the Federal Reserve Bank of New York in May of this year, it now seems appropriate to give further thought to steps that might be taken looking toward the development of standard accounting practices and reports for Government securities dealers. Accordingly, this topic is being placed on the agenda for discussion at the meeting of the Federal Open Market Committee to be held on July 6, 1960.