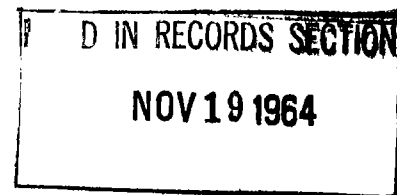




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



November 18, 1964

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

Enclosed is a memorandum from Mr. Stone on the subject of
the M. & F. Discount Corporation.

A handwritten signature in cursive script that reads "Arthur L. Broida".

Arthur L. Broida,
Assistant Secretary.
Federal Open Market Committee.

Enclosure

'D IN RECORDS SECTION

November 17, ~~NOV 19~~ 1964

CONFIDENTIAL (FR)

TO: Federal Open Market
Committee

Subject: M. & T. Discount Corporation.

FROM: R. W. Stone

As you know, I proposed to the Federal Open Market Committee, at its meeting of November 10, 1964, that the New York Reserve Bank begin making repurchase agreements with M. & T. Discount Corporation. The Committee interposed no objection. Chairman Martin, however, suggested that it would be useful for the Committee to have a memorandum for its records in cases of this kind. I have therefore indicated below the major considerations that led to my proposal.

The continuing authority directive authorizes the Federal Reserve Bank of New York to make repurchase agreements with nonbank dealers in Government securities and bankers' acceptances. The M. & T. Discount Corporation is a dealer in bankers' acceptances. It was organized in 1932 as a wholly-owned subsidiary of Manufacturers & Traders Trust Company of Buffalo, New York, a member bank. We have not, thus far, made repurchase agreements with M. & T. Discount Corporation, since the firm had made it a practice to borrow from its parent bank to finance the small positions it carried in bankers' acceptances. The parent bank, of course, has access to the discount window.

In recent years, M. & T. Discount Corporation has undergone substantial change. It has now become a major dealer in the acceptance market, carrying sizable positions which it actively trades. Furthermore, it has established its own credit in the market and now does all of its

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financing at other banks. None of its financing is obtained from its parent bank--a fact that the Federal Reserve Bank of New York has verified in its examinations of the parent bank. It would be helpful to the market and to the Federal Reserve to make repurchase agreements with M. & T. Discount Corporation. The question is raised, however, as to whether M. & T. Discount Corporation is a "nonbank dealer" within the meaning of that term as the Committee uses it in the continuing authority directive. It seems clear to me that M. & T. Discount Corporation is a nonbank dealer. It is not a department of the Manufacturers & Traders Trust Company, as bank dealers are departments of their banks. Indeed, the corporate charter of M. & T. Discount expressly prohibits the firm from doing a banking business.