

GAO

**Fact Sheet for the Chairman,
Subcommittee on Domestic Monetary
Policy, Committee on Banking, Finance
and Urban Affairs, House of
Representatives**

September 1986

**U.S. GOVERNMENT
SECURITIES**

**Dealer Views on
Market Operations and
Federal Reserve
Oversight**



131124

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United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-221597

September 29, 1986

The Honorable Walter E. Fauntroy
Chairman, Subcommittee
on Domestic Monetary Policy
Committee on Banking, Finance
and Urban Affairs
House of Representatives

Dear Mr. Chairman:

In response to your request, we are reviewing the Federal Reserve's oversight of the U.S. government securities market. As part of that review, we surveyed primary and nonprimary dealers in U.S. government securities for their views and perceptions on the following issues:

- The impact of recent dealer failures and other market disturbances.
- The effectiveness of the Federal Reserve Bank of New York's (FRBNY) market oversight.
- The need, if any, for new federal regulation of the U.S. government securities market.
- FRBNY voluntary capital adequacy guidelines for dealers not subject to federal regulatory oversight.
- The structure and functioning of the U.S. government securities market.
- Access to inter-dealer broker wires.

As you requested, we are providing you with this fact sheet showing the results of our questionnaire survey of dealers. We surveyed 85 dealers including all primary dealers and 49 nonprimary dealers who had been identified by Federal Reserve and trade association representatives as significant market participants. Seventy-five dealers, or 88 percent of those surveyed, responded. We believe the responses of these 75 dealers represents a significant cross section of major participants in the government securities market. Specifics regarding the questionnaire design, methodology for selecting dealer firms, and characteristics of the respondents are contained in appendix I.

Appendixes II through IV show our survey results overall and by type of dealer. Appendix II shows the combined responses of all dealers, whereas appendixes III and IV show the responses of primary dealers and nonprimary dealers, respectively.

Highlights of the responding dealers' views follow. In some cases, the highlights combine dealer responses, for example, totaling responses of moderate, great, and very great extent.

Impact of dealer failures and market disturbances

- A majority of the respondents indicated that since 1982, the overall functioning of the U.S. government securities market has been temporarily disrupted to a moderate or greater extent by several of the dealer failures and other disturbances listed in our questionnaire. The dealer failures cited most frequently by respondents were: Drysdale Government Securities, Inc. in 1982 (84 percent); E.S.M. Government Securities, Inc., and Bevill, Bresler, and Schulman Asset Management Corp. in 1985 (67 percent and 57 percent, respectively). The near failure of Continental Illinois National Bank in 1984 was cited by 53 percent of all respondents. Primary dealers cited the 1985 clearing operation computer problems at the Bank of New York in 54 percent of their responses. (See apps. II and III, question 4.)
- Most dealers reported that these market disturbances had no effect on their profitability, but some reported improvement or worsening of their profitability during the period directly after these disturbances. (See app. II, question 6.)
- The majority of the dealers indicated that many of the market changes occurring since 1982 have been effective in reducing the potential for future disturbances. For example, over 90 percent believed that (1) the change in the method for valuing repurchase collateral and (2) the increased emphasis on credit analysis of counterparties have been effective or very effective in reducing the potential for future disturbances. (See app. II, question 7.)

Effectiveness of FRBNY market oversight

- More than 90 percent of the primary dealers indicated that FRBNY's analysis of reports and capital adequacy

was administered in an adequate or more than adequate manner. Some primary dealers, however, indicated that FRBNY's surveillance of certain areas of the market could be increased. Approximately half of the primary dealers believed more FRBNY surveillance was needed for over-the-counter trading in forwards and options, interest rate and currency swaps, and settlement of mortgage-backed securities. (See app. III, questions 9 and 10.)

- Primary and nonprimary dealers alike viewed most of the Federal Reserve's standards for designating primary dealers as highly relevant to the efficient functioning of the government securities market. However, some standards were viewed as more relevant than others. For example, the standards relating to (1) capital strength; and (2) experience and capacity in trading, sales, and operations were considered highly relevant by 93 percent and 89 percent of the dealers, respectively. The standards for (1) Treasury auction participation and (2) diversity of customer base were viewed as highly relevant by 49 percent and 45 percent of the dealers, respectively. (See app. II, question 12.)
- More than 40 percent of all respondents indicated that FRBNY oversight of primary dealers decreased their firms' need for a credit check of primary dealers with whom they trade. In addition, over 40 percent of the respondents believed that primary dealer status denotes to the public that the Federal Reserve will prevent primary dealers from defaulting on their obligations. (See app. II, questions 15 and 17.)

Need for new federal regulation

- More than 60 percent of all respondents indicated that U.S. government securities should continue to be exempted from federal regulation. However, if federal regulation occurred, 63 percent of all respondents believed that a statutory scheme of regulation should include capital adequacy requirements, and about 45 percent of the respondents believed a statutory scheme should include provisions for dealer registration, recordkeeping requirements, and custodial requirements. (See app. II, questions 18 and 19.)

FRBNY capital adequacy guidelines

- Sixty percent of all respondents indicated that they transacted business with unregulated securities dealers. Half of these dealers said they requested certifications of compliance with FRBNY's capital adequacy guidelines from few, if any, unregulated dealers. (See app. II, questions 20 and 21.)

Structure and functioning of the market

- In evaluating the creditworthiness of their trading partners, dealers placed great or very great importance on: (1) knowledge of principals and management (88 percent); (2) audited annual financial statements (84 percent); (3) guarantee from parent or affiliate (65 percent); and (4) primary dealer designation (61 percent). (See app. II, question 27.)

Access to inter-dealer broker wires

- A difference in opinion existed between nonprimary and primary dealers regarding the extent to which access to the inter-dealer brokers' wires represents a competitive advantage. Seventy percent of nonprimary dealers versus 17 percent of the primary dealers believed the competitive advantage to be great or very great. (See apps. III and IV, question 32.)

We have shared the results of this survey with officials at the Federal Reserve Board and Federal Reserve Bank of New York. As arranged with your office, we are sending copies of this report to the Board of Governors of the Federal Reserve System, the Secretary of the Treasury, various congressional committees and subcommittees, and other interested parties.

Please call me at (202) 275-8678 if you have any questions. We are available to meet with you or your staff at any time to discuss the results of this survey at greater length.

Sincerely yours,



Craig A. Simmons
Senior Associate Director

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OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this survey was to obtain the views and perceptions of primary and large nonprimary government securities dealers about the adequacy of the FRBNY's oversight of the U.S. government securities market. To accomplish this objective, in April 1986, we sent confidential questionnaires to all 36 primary dealers and 49 nonprimary dealers, soliciting their views on the following topics:

- The impact of recent dealer failures and other market disturbances.
- The effectiveness of FRBNY's market oversight.
- The need, if any, for new federal regulation of the U.S. government securities market.
- FRBNY's voluntary capital adequacy guidelines for dealers not subject to federal regulatory oversight.
- The structure and functioning of the U.S. government securities market.
- Access to inter-dealer broker wires.

Because the market is unregulated, there is no official comprehensive listing of dealers in U.S. government securities. However, the FRBNY has compiled a data base on participants in the market which served as the principal source for mailing our survey to primary and nonprimary dealers. We sent the questionnaire to all dealers designated by the Federal Reserve as primary reporting dealers, as well as those nonprimary dealers categorized by FRBNY dealer surveillance staff as significant market participants. We added to our group of nonprimary dealers those regional banks identified by the Dealer Bank Association as having significant dealing activities. We believe that this group of 85 dealers provides a cross section of major participants in the government securities market.

In developing the questionnaire, we worked closely with representatives of the FRBNY and the government securities dealer community, making selected pretests of the questionnaire with both primary and nonprimary dealers to help assure its completeness and validity. Comments and

suggestions of Federal Reserve officials and dealers participating in our pretests were incorporated into the final survey instrument.

Thirty-three of 36 primary dealers responded to our questionnaire, as did 41 of the 49 nonprimary dealers. One firm classified itself as an investor-money manager. In view of these response rates, we are confident that the views and perceptions expressed by the dealer respondents represent a significant cross section of major market participants.

The survey results shown in appendixes II through IV are expressed in percentages totaling to 100 percent, which represents the total number of dealers responding to each question. In addition, we show the number of dealers responding to each question.

Nonprimary dealer respondents included all aspiring primary dealers reporting daily to the FRBNY at the time of our survey. At the request of FRBNY officials, we have not identified the number of these aspiring primary dealers because this is not considered by the FRBNY to be public information.

A number of respondents provided comments concerning individual questions, the regulatory framework, and the Federal Reserve's oversight of the U.S. government securities market. We did not summarize these comments for inclusion in this report.

COMBINED RESPONSES OF ALL DEALERS



U.S. GENERAL ACCOUNTING OFFICE
**SURVEY OF THE FEDERAL RESERVE'S OVERSIGHT OF
 THE U.S. GOVERNMENT SECURITIES MARKET:
 DEALERS' VIEWS**

INSTRUCTIONS.

ID 112
 CARD 1 13

The U S General Accounting Office (GAO), an independent agency of the Congress responsible for evaluating federal programs, is currently reviewing the U S Government securities market. The purpose of this survey is to obtain the views and perceptions of primary and large non-primary dealers about the adequacy of the Federal Reserve Bank of New York's (FRBNY) oversight of this market.

The questionnaire can be completed in less than one hour. Most of the questions can be quickly answered by checking boxes. The questionnaire should be answered by the addressee and/or trading/credit analysis staff in the company's fixed income or government securities department.

All questionnaire responses will be treated confidentially. Individual responses will not be made available to any other agency. The questionnaire is numbered only to aid us in our follow-up efforts and will not be used to identify you with your response. After the questionnaires have been processed, the link between you and your responses will be destroyed and only summary data will be used in our report to the Congress. Your response is voluntary, however, we cannot make a meaningful assessment of the U S Government securities market without your cooperation.

Please complete the questionnaire and mail it back in the self-addressed, stamped envelope within 10 days after receiving this request. If you have any questions, please call Mr. Thomas C. Bittman or Mr. William C. Petersen in New York at (212) 264-0730. In the event the envelope is misplaced, the return address is:

U S General Accounting Office
 Mr. Thomas C. Bittman
 Room 4112
 26 Federal Plaza
 New York, NY 10278

Thank you for your help

* * * * *

I BACKGROUND

In order to better evaluate overall questionnaire results, we ask that you provide the information requested below. This information will assist us in understanding the perspectives of a wide range of market participants. It should be emphasized that this information will in no manner be used to identify specific firms responding to the questionnaire.

1 Which of the following best describes your firm's role (or your role as a subsidiary, if applicable) in the government securities market? (Check one)

Number of respondents			
11	1	<input type="checkbox"/>	Primary dealer - registered with SEC
13	2	<input type="checkbox"/>	Primary dealer - bank
9	3	<input type="checkbox"/>	Primary dealer - specialist firm
13	4	<input type="checkbox"/>	Nonprimary dealer - registered with SEC
23	5	<input type="checkbox"/>	Nonprimary dealer - bank
5	6	<input type="checkbox"/>	Nonprimary dealer - specialist firm
1	7	<input type="checkbox"/>	Other (Specify) _____
<u>75</u>			

2 What was your firm's approximate average daily customer transaction volume, if any, in Treasury and Federal Agency securities for calendar year 1985? (Check one)

Percent			Number
4	1	<input type="checkbox"/>	\$0 — No customer transactions 3
14	2	<input type="checkbox"/>	Under \$25,000,000 10
21	3	<input type="checkbox"/>	\$25,000,000 - \$99,999,999 15
14	4	<input type="checkbox"/>	\$100,000,000 - \$249,999,999 10
14	5	<input type="checkbox"/>	\$250,000,000 - \$499,999,999 10
32	6	<input type="checkbox"/>	\$500,000,000 or more 23
			<u>71</u>

Note: Questions 2 through 33 expressed in percentages. The percentages shown may not add to 100 due to rounding. The actual number of respondents is shown on the right-hand side of each question.

3 What was your firm's approximate average net daily inventory, if any, in Treasury and Federal Agency securities during calendar year 1985? (Check one)

Percent			Number	Percent		Number
0	<input type="checkbox"/>	\$0 — No positions taken during the year	0	15	<input type="checkbox"/>	\$100,000,000 - \$249,999,999
23	<input type="checkbox"/>	Under \$25,000,000	17	14	<input type="checkbox"/>	\$250,000,000 - \$499,999,999
22	<input type="checkbox"/>	\$25,000,000 - \$99,999,999	16	27	<input type="checkbox"/>	\$500,000,000 or more
						<u>20</u>
						<u>74</u>

II. IMPACT OF RECENT DEALER FAILURES AND OTHER MARKET DISTURBANCES

Starting in May 1982 and continuing through December 1985, a series of dealer failures and other disturbances occurred within the government securities market. The purpose of the following questions is to obtain your firm's perceptions regarding the impact of these events on the overall functioning of the government securities market as well as the effectiveness of resulting changes in market practices and Federal Reserve oversight.

4 To what extent, if any, did the following dealer failures or other disturbances temporarily disrupt the overall functioning of the U S Government securities market? (Check one box for each row)

Dealer Failures or Disturbances	<table border="1"> <tr> <td>Little or no extent</td> <td>Some extent</td> <td>Moderate extent</td> <td>Great extent</td> <td>Very great extent</td> <td>No basis to judge</td> </tr> <tr> <td>(1)</td> <td>(2)</td> <td>(3)</td> <td>(4)</td> <td>(5)</td> <td>(6)</td> </tr> </table>						Little or no extent	Some extent	Moderate extent	Great extent	Very great extent	No basis to judge	(1)	(2)	(3)	(4)	(5)	(6)	Number
	Little or no extent	Some extent	Moderate extent	Great extent	Very great extent	No basis to judge													
(1)	(2)	(3)	(4)	(5)	(6)														
(Percent)																			
1982																			
1. Drysdale Government Securities, Inc.	5	8	20	34	30	3	(8) 74												
2. Comark	45	28	17	1	0	9	(9) 71												
3. Lombard-Wall, Inc.	18	34	22	15	8	3	(10) 73												
1983																			
4. Lion Capital Group	49	26	15	5	0	5	(11) 74												
1984																			
5. Continental Illinois National Bank	25	21	23	22	8	1	(12) 73												
1985																			
6. E.S.M. Government Securities, Inc	10	23	32	25	10	1	(13) 73												
7. Bevell, Bresler, and Schulman Asset Management Corp	22	19	32	19	6	3	(14) 73												
8. Parr Securities and Kenney & Branisel, Inc	63	23	11	1	0	1	(15) 73												
9. Bank of New York (clearing operation computer problems)	28	26	24	12	5	4	(16) 74												
Other																			
10 (Specify) _____							(17) 1												

5 For the following dealer failures or disturbances, the Federal Reserve System, in some cases, took action such as increasing liquidity in the market. In other cases, the Federal Reserve took no action.

In your opinion, how appropriate or inappropriate was the Federal Reserve's response in containing the impact of each of the following dealer failures or other disturbances? (Check one box in each row.)

Dealer Failures or Disturbances	Very appropriate	Appropriate	Neither appropriate nor inappropriate	Inappropriate	Very inappropriate	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1982							
(Percent)							
1 Drysdale Government Securities, Inc.	34	47	7	4	0	8	(18) 74
2 Comark	14	30	26	0	0	31	(19) 74
3 Lombard-Wall, Inc	16	39	20	4	0	20	(20) 74
1983							
4 Lion Capital Group	11	32	26	1	0	30	(21) 73
1984							
5 Continental Illinois National Bank	45	41	5	1	1	7	(22) 74
1985							
6 E S M Government Securities, Inc	18	49	16	4	0	14	(23) 74
7 Bevill, Bresler, and Schulman Asset Management Corp	15	38	25	1	0	21	(24) 73
8 Parr Securities and Kenney & Branisel, Inc	12	28	31	0	0	28	(25) 74
9 Bank of New York (clearing operation computer problems)	35	39	10	1	1	14	(26) 74
Other							
10 (Specify) _____							(27) 1

6 Did the following dealer failures or other disturbances improve, worsen, or have no effect on your firm's profitability during the period directly after the disturbance in question? (Check one box in each row)

Dealer Failures or Disturbances	Greatly improved	Improved	No effect	Worsened	Greatly worsened	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1982 (Percent)							
1 Drysdale Government Securities, Inc	0	19	52	18	4	7	(128) 73
2 Comark	0	1	82	6	0	11	(129) 72
3 Lombard-Wall, Inc.	0	12	70	10	1	7	(130) 73
1983							
4 Lion Capital Group	0	3	86	3	0	9	(131) 71
1984							
5 Continental Illinois National Bank	1	22	60	8	3	6	(132) 72
1985							
6 E.S.M. Government Securities, Inc	0	16	62	16	1	4	(133) 74
7 Bevill, Bresler, and Schulman Asset Management Corp	0	12	68	15	1	4	(134) 74
8 Parr Securities and Kenney & Branisel, Inc	0	7	82	8	0	3	(135) 73
9 Bank of New York (clearing operation computer problems)	0	0	79	10	0	11	(136) 72
Other							
10 (Specify) _____ _____							(137) 0

7 The following changes have taken place in the marketplace since 1982 which may reduce the potential for disturbances in the U.S. Government securities market. How effective or ineffective have each of the following changes been in reducing the potential for disturbances? (Check one box in each row.)

Changes to Reduce the Potential for Disturbances	Very effective	Effective	Neither effective nor ineffective	Ineffective	Very ineffective	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Establishment of a dealer surveillance unit within the Federal Reserve Bank of New York (FRBNY)	12	58	8	1	0	20	⁽³⁸⁾ 74
2 FRBNY's voluntary capital adequacy guidelines	3	51	22	7	3	15	⁽³⁹⁾ 74
3 FRBNY's investor education program on dealer capital adequacy and proper use of repurchase agreements (RPs)	3	45	21	11	1	19	⁽⁴⁰⁾ 75
4 Reduction of the when-issued trading period for new Treasury issues	21	48	23	5	0	3	⁽⁴¹⁾ 75
5 FRBNY reporting program for when-issued commitments	5	53	27	0	0	15	⁽⁴²⁾ 75
6 Change in valuing RP collateral (inclusion of accrued interest)	61	36	1	0	0	1	⁽⁴³⁾ 75
7 Increased oversight of RPs by bank regulators	13	45	20	1	0	20	⁽⁴⁴⁾ 75
8 Accounting profession's increased emphasis on reporting and auditing practices for RPs	8	49	25	7	0	11	⁽⁴⁵⁾ 75
9 Increased emphasis on using written repurchase agreement contracts	19	49	20	7	0	5	⁽⁴⁶⁾ 74
10 Increased emphasis on credit analysis of counterparties	35	57	4	1	0	3	⁽⁴⁷⁾ 75
11 Other (Specify) _____ _____ _____							4 ⁽⁴⁸⁾

III. EFFECTIVENESS OF THE FEDERAL RESERVE BANK OF NEW YORK'S (FRBNY) MARKET OVERSIGHT

The purpose of the following questions is to obtain dealer perceptions regarding the importance and effectiveness of FRBNY oversight of primary dealers and the need for federal regulation of the U S Government securities market

(Please note: Questions 8 through 11 should be answered only by primary dealers and aspiring primary dealers reporting daily to the Federal Reserve Bank of New York. All other respondents, Skip to Question 12.)

(If your firm is not familiar with the elements of FRBNY's oversight program, please check "No basis to judge" for each element, as appropriate.)

8 Listed below are elements of the FRBNY's oversight program for primary dealers. Of how much importance, if any, is each of the following elements to the efficient functioning of the government securities market? (Check one box in each row.)

Note: The number of respondents to questions 8 through 11, 13, and 14 has been withheld because it includes the number of aspiring primary dealers, which is not public information.

	Little or no importance	Some importance	Moderate importance	Great importance	Very great importance	No basis to judge	
	(1)	(2)	(3)	(4)	(5)	(6)	
FRBNY Primary Dealer Oversight Program							
A Analysis of (Percent)							
1 Transaction volume reports	3	18	55	15	3	8	(149)
2 Position reports	0	5	38	38	13	8	(150)
3 Dealer financing reports	3	18	35	25	10	10	(151)
4 Monthly/annual financial statements	3	8	23	39	21	8	(152)
5 Capital adequacy (capital-to-risk ratio)	0	10	13	43	28	8	(153)
6 Capital adequacy (liquid capital)	0	8	23	45	20	5	(154)
7 Exposure in the when-issued market	5	3	25	50	10	8	(155)
B Periodic On-Site Evaluations of							
8 Accounting systems	3	15	43	28	8	5	(156)
9 Reporting system and report accuracy	0	10	48	28	10	5	(157)
10 Credit analysis function	3	3	30	35	25	5	(158)
11 Management of risks	3	3	23	43	25	5	(159)
12 Internal financial controls	0	13	23	45	15	5	(160)
13 Margining practices and credit exposure levels	0	5	20	48	23	5	(161)
14 Review of customer transactions	3	13	38	30	13	5	(162)

9 In your opinion, how adequately or inadequately has FRBNY administered each of the following aspects of its primary dealer oversight program for your firm? (Check one box in each row)

	More than adequately	Adequately	Neither adequately nor inadequately	Inadequately	Very inadequately	No basis to judge	
FRBNY Primary Dealer Oversight Program	(1)	(2)	(3)	(4)	(5)	(6)	
A Analysis of							(Percent)
1 Transaction volume reports	21	74	0	0	0	5	(63)
2 Position reports	18	77	0	0	0	5	(64)
3 Dealer financing reports	15	77	0	0	0	8	(65)
4 Monthly/annual financial statements	15	74	3	0	0	8	(66)
5 Capital adequacy (capital-to-risk ratio)	18	74	0	0	0	8	(67)
6 Capital adequacy (liquid capital)	15	77	0	0	0	8	(68)
7 Exposure in the when-issued market	18	67	3	0	0	13	(69)
B Periodic On-Site Evaluations of							
8 Accounting systems	10	74	3	5	0	8	(70)
9 Reporting system and report accuracy	15	72	0	5	0	8	(71)
10 Credit analysis function	18	62	5	8	0	8	(72)
11 Management of risks	15	67	3	8	0	8	(73)
12 Internal financial controls	13	69	5	5	0	8	(74)
13 Margining practices and credit exposure levels	13	72	3	5	0	8	(75)
14 Review of customer transactions	11	71	5	5	0	8	(76)

10 In your opinion, should there be more, less, or about the same amount of FRBNY surveillance of primary dealer trading in the following areas related to the government securities market? (Check one box in each row)

FRBNY Surveillance	Much more	More	About the same	Less	Much less	No basis to judge	
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Exchange-traded futures	0	13	85	0	3	0	(177)
2 Over-the-counter forwards and options	5	54	28	0	0	13	(178)
3 Repurchase agreements	5	18	78	0	0	0	(179)
4 Interest rate/currency swaps	13	32	37	0	0	18	(180)
5 CDs, bankers' acceptances, and other money market instruments	5	10	75	3	0	8	(181)
6 When-issued trading	5	28	64	3	0	0	(182)
7 Blind brokering in the inter-dealer market	20	18	58	3	0	3	(183)
8 Settlement of physical securities (mortgage-backed)	15	28	40	0	3	15	(184)
9 Other (Specify) _____ _____							(185)

11 Based on the FRBNY's last full surveillance visit, how adequate or inadequate was each of the following aspects of the FRBNY's on-site evaluation? (Check one box in each row)

FRBNY's Surveillance Visit	More than adequate	Adequate	Neither adequate nor inadequate	Inadequate	Very Inadequate	No basis to judge	
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Staff's knowledge of the government securities market	23	67	8	3	0	0	(186)
2 Staff's knowledge of dealer operations and systems	23	64	10	0	3	0	(187)
3 Scope of surveillance visit	23	69	5	3	0	0	(188)
4 Depth of surveillance visit	21	67	10	3	0	0	(189)
5 Frequency of surveillance visits	5	77	5	10	0	3	(190)
6 Communication of surveillance visit results to dealer	21	64	5	8	0	3	(191)

ID (1,2)
CARD 2 (3)

- 12 Listed below are standards the Federal Reserve uses to designate primary dealers. How relevant, if at all, to the efficient functioning of the government securities market are the following Federal Reserve standards for designating primary dealers? (Check one box in each row.)

Federal Reserve Primary Dealer Standards	Very highly relevant	Highly relevant	Moderately relevant	Somewhat relevant	Little or no relevance	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Volume of transactions with customers	31	31	16	14	4	4	15, 74
2 Diversity of securities and maturity areas	18	37	31	12	0	3	16, 74
3 Diversity of customer base	18	27	41	11	0	4	17, 74
4 Treasury auction participation	19	30	34	11	4	3	18, 74
5 Capital strength and financial soundness	67	26	3	0	1	3	19, 73
6 Experience and capacity in trading, sales, and operations	43	46	7	1	0	3	110, 74
7 Managerial and auditing controls	41	45	10	3	0	3	111, 74
8 Long-term commitment to the market	54	31	12	0	0	3	112, 74

(Please note: Primary dealers and aspiring primary dealers reporting daily to the FRBNY, continue; all other respondents skip to Question 15.)

- 13 As a primary dealer or aspiring primary dealer reporting daily to the FRBNY, in your opinion, is the Federal Reserve's application of its primary dealer standards, in the areas listed below, too lenient, too strict, or about right? (Check one box in each row.)

Federal Reserve Primary Dealer Standards	Much too lenient	Too lenient	About right	Too strict	Much too strict	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Volume of transactions with customers	8	15	67	8	3	0	113
2 Diversity of securities and maturity areas	3	23	72	3	0	0	114
3 Diversity of customer base	5	15	80	0	0	0	115
4 Treasury auction participation	5	5	80	8	0	3	116
5 Capital strength and financial soundness	10	23	67	0	0	0	117
6 Experience and capacity in trading, sales and operations	5	26	69	0	0	0	118
7 Managerial and auditing controls	3	18	77	3	0	0	119
8 Long-term commitment to the market	10	23	67	0	0	0	120

14 As a primary dealer or aspiring dealer reporting daily to the FRBNY, in your opinion, does the Federal Reserve use the following enforcement measures for ensuring compliance with its standards too frequently, too infrequently, or is the usage about right? (Check one box in each row)

	Much too frequently	Too frequently	About right	Too infrequently	Much too infrequently	No basis to judge
FRBNY Primary Dealer Enforcement Measures	(1)	(2)	(3)	(4)	(5)	(6)
1 Verbal/written admonishment	0	5	49	23	0	23
2 Temporary reduction in open market trading	0	3	31	26	3	39
3 Suspension of open market trading relationship	0	0	31	21	10	39
4 Termination of primary dealer status	3	0	31	21	18	28
5 Other (Specify) _____ _____ _____						

15 Does the FRBNY's oversight of primary dealers increase, decrease, or have no effect on your firm's need for a credit check of primary dealers with whom you trade? (Check one)

Percent		Number
10	<input type="checkbox"/> Greatly decreases the need	7
34	<input type="checkbox"/> Decreases the need	25
55	<input type="checkbox"/> No effect on need	41
0	<input type="checkbox"/> Increases the need	0
0	<input type="checkbox"/> Greatly increases the need	0
1	<input type="checkbox"/> No basis to judge	1
		<u>74</u>

16 Some parties believe that primary dealer status effectively denotes that the Federal Reserve will prevent that dealer from defaulting on its obligations. Others disagree, saying that primary dealer status would not prevent default

In your opinion, does primary dealer status denote to your firm that the Federal Reserve will prevent that dealer from defaulting, or not? (Check one)

Percent		Number
11	<input type="checkbox"/> Yes, for all primary dealers	8
4	<input type="checkbox"/> Yes, but only for bank primary dealers	3
3	<input type="checkbox"/> Yes, but only for larger primary dealers	2
0	<input type="checkbox"/> Yes, but only for smaller primary dealers	0
81	<input type="checkbox"/> No	60
1	<input type="checkbox"/> No opinion	1
		<u>74</u>

17 In your opinion, does primary dealer status denote to the public that the Federal Reserve will prevent that dealer from defaulting, or not? (Check one)

Percent	Number ⁽²⁸⁾
42 1	31
1 2	1
3 3	2
0 4	0
42 5	31
12 6	9
	<u>74</u>

VIEWS ON THE NEED, IF ANY, FOR NEW FEDERAL REGULATION

Presently, no federal agency has direct statutory authority to regulate the U S Government securities market. The Federal Reserve's market oversight is conducted on an informal, voluntary basis. Other federal agencies, including the SEC and bank regulators, oversee certain government securities dealers but not the government securities market itself. In response to recent dealer failures and market disturbances, the Congress is considering a number of legislative proposals which would change the regulatory structure of this market.

18 If the Congress determines that the U.S. Government securities market should be regulated, in your opinion, which, if any, of the following securities currently exempt from federal regulation, should be brought under a statutory scheme of regulation? (Check all that apply.)

Percent	Number
61 1	124 6
27 2	100 20
27 3	112 0
32 4	24
5 5	4
	<u>133</u>
3 6	134 2

19 If the U S Government securities market is brought under federal regulation, which, if any, of the following provisions should be included under a statutory scheme of regulation? (Check all that apply)

Percent	Number
29 1	135 22
45 2	136 34
45 3	137 34
39 4	138 29
63 5	139 47
43 6	140 32
27 7	141 20
4 8	3
	<u>142</u>
1 9	143 1

IV. CAPITAL ADEQUACY GUIDELINES

In May 1985, FRBNY issued capital adequacy guidelines for nonprimary government securities dealers not subject to federal regulatory oversight. Compliance with the capital adequacy guidelines is voluntary.

20. Does your organization currently transact business in U S Government securities with any unregulated securities dealers?

Percent	Number ⁽⁴⁴⁾
60 1	44
40 2	29
	<u>73</u>

21. In conducting business with unregulated nonprimary securities dealers, from how many, if any, have you requested certification of compliance with the FRBNY's capital adequacy guidelines? (Check one.)

Percent	Number ⁽⁴⁵⁾
25 1	11
14 2	6
0 3	0
11 4	5
50 5	22
	<u>44</u>

(Please note: Nonprimary dealers not currently subject to federal oversight, continue; all other respondents, Go to Question 26.)

22 About how many, if any, of the following parties request management certification of compliance with the capital adequacy guidelines as a condition for doing business with your firm? (If such information is voluntarily provided by your firm, check "Not applicable," as appropriate) (Check one box for each row)

Note: There were only five unregulated dealers in our survey sample. Because of this group's low response rate to questions 22 through 25, we are not reporting these responses.

Parties	All or almost all of the parties	Most of the parties	About half of the parties	Some of the parties	Few, if any, of the parties	Not applicable
	(1)	(2)	(3)	(4)	(5)	(6)
1 Primary dealers						
2 Nonprimary dealers						
3 Clearing banks						
4 Brokers						
5 Institutional investors						
6 Repurchase agreement counterparties						
7 Other (Specify) _____ _____						

23 Has your firm certified or do you plan to certify compliance with the FRBNY voluntary capital adequacy guidelines? (Check one) ⁽¹⁵³⁾

- 1 Yes (Continue.)
- 2 No, but plan to certify by December 31, 1986
- 3 No, but plan to certify after 1986
- 4 No plans to certify
- 5 Undecided

(Skip to Question 26)

24 If yes, by which standard was compliance measured Federal Reserve calculations or SEC uniform net capital rule? (Check one) ⁽¹⁵⁴⁾

- 1 Federal Reserve calculations
- 2 SEC uniform net capital rule

25 Relative to your firm's total operating expenses, how much, if any, additional cost did your firm incur to comply with FRBNY capital adequacy guidelines? (Check one) ⁽¹⁵⁵⁾

- 1 Little or no cost
- 2 Some cost
- 3 Moderate cost
- 4 Great cost
- 5 Very great cost
- 6 No basis to judge

26 Which of the following immediate actions, if any, should the Federal Reserve encourage dealers to take when daily capital falls below the amount required under the FRBNY voluntary capital adequacy guidelines? (Check all that apply)

	Percent		Number
81	1	<input type="checkbox"/> Replenish capital or reduce position risks	61 ⁽¹⁵⁶⁾
75	2	<input type="checkbox"/> Notify FRBNY	56 ⁽¹⁵⁷⁾
28	3	<input type="checkbox"/> Notify clearing bank	21 ⁽¹⁵⁸⁾
11	4	<input type="checkbox"/> Notify government securities brokers	8 ⁽¹⁵⁹⁾
13	5	<input type="checkbox"/> Notify counterparties/customers	10 ⁽¹⁶⁰⁾
3	6	<input type="checkbox"/> Other (Specify) _____	2 ⁽¹⁶¹⁾

V YOUR FIRM'S PERCEPTIONS ABOUT THE STRUCTURE AND FUNCTIONING OF THE GOVERNMENT SECURITIES MARKET

(Please note: Questions 27, 28, and 29 may most appropriately be answered by key staff in your firm's Credit Analysis Department.)

27 In evaluating the creditworthiness of U S. Government securities dealers with whom your firm trades, how much importance, if any, do you place on the following factors? (Check one box in each row)

Factors	Very great importance	Great importance	Moderate importance	Some importance	Little or no importance	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Audited annual financial statements	49	35	13	4	0	0	(62) 72
2 Interim financial statements	17	33	42	4	4	0	(63) 72
3 Knowledge of principals and/or management	61	27	11	1	0	0	(64) 71
4 Guarantee from parent or affiliate	29	36	21	8	6	0	(65) 72
5 Dealer's clearing arrangements	0	17	28	30	20	4	(66) 69
6 Management's certification of compliance with FRBNY capital adequacy guidelines	4	16	32	24	18	6	(67) 71
7 Independent auditor's year-end confirmation of capital adequacy under FRBNY guidelines	9	16	37	18	18	3	(68) 71
8 Nature of firm's regulatory oversight (e.g., SEC-registered dealer, bank dealer, unregulated dealer)	8	46	26	13	6	1	(69) 72
9. Primary dealer designation	23	38	22	12	4	0	(70) 73
10 Outside credit rating sources	1	17	44	11	24	3	(71) 72
11 Status as an FRBNY monthly reporting dealer	3	14	32	22	26	3	(72) 72
12. Other (Specify) _____ _____ _____							(73) 5

28 In conducting business with the following types of firms that are subsidiaries, from how many of these subsidiaries does your firm request a written guarantee or comfort letter from the parent or affiliate? (Check one box in each row)

Subsidiaries	All or almost all firms	Most firms	About half the firms	Some firms	Few, if any, firms	Not applicable	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Inter-dealer brokers	15	6	3	12	44	22	1741 69
2 Primary dealers that are subsidiaries of other firms	11	13	3	20	44	9	1751 70
3 Nonprimary dealers that are subsidiaries of other firms	23	15	6	17	28	12	1761 69
4 Dealers that do not meet credit standards	43	1	0	1	6	49	1771 70
5 Dealers conducting transactions on a delayed delivery basis	16	10	6	21	23	24	1781 70
6 Other (Specify) _____ _____							1 1791

29 If your firm is organized as a subsidiary, to how many dealers does your parent company or affiliate provide written guarantees or comfort letters? (Check one)

Percent		Number
61	1 <input type="checkbox"/> Not applicable (e.g., not a subsidiary)	38
2	2 <input type="checkbox"/> All or almost all of the firms	1
2	3 <input type="checkbox"/> Most of the firms	1
0	4 <input type="checkbox"/> About half of the firms	0
3	5 <input type="checkbox"/> Some of the firms	2
29	6 <input type="checkbox"/> Few, if any, firms	18
3	7 <input type="checkbox"/> No basis to judge	2
		<u>62</u>

INTER-DEALER BROKER WIRES

30 In your opinion, how relevant, if at all, do you consider the following potential criteria for determining which dealers should have access to the inter-dealer broker wires? (Check one box in each row)

Criteria for Broker Wire Access	Very greatly relevant	Greatly relevant	Moderately relevant	Somewhat relevant	Little or no relevance	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Meeting all the requirements for being designated as a primary dealer	41	17	6	7	26	3	181, 69
2 Recognition as an aspiring primary dealer reporting daily to FRBNY	26	20	12	15	25	3	182, 69
3 Meeting of minimum trading volume requirements imposed by the brokers	7	4	20	15	48	6	183, 69
4 Meeting of minimum credit requirements imposed by other dealers which trade through the brokers	54	27	4	4	7	3	184, 70
5 Meeting of minimum credit requirements imposed by the brokers	28	25	15	7	23	3	185, 69
6 Other (Specify) _____							186, 2

31 How likely or unlikely would each of the following effects be if access to inter-dealer broker wires were broadened to include all dealers meeting credit requirements imposed by the brokers? (Check one box in each row)

Possible Effects from Broadening Access to Broker Wires	Highly likely	Likely	Neither likely nor unlikely	Unlikely	Highly unlikely	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Certain primary dealers would reconsider remaining a primary dealer	20	32	7	20	13	9	187, 71
2 Certain primary dealers would restrict their business with inter-dealer brokers that have broadened access	37	37	13	4	4	6	188, 71
3 Certain inter-dealer brokers would conduct business on a principal rather than agency basis	20	28	23	14	7	9	189, 71
4 Liquidity in the government securities market would increase	9	31	20	25	13	3	190, 71
5 There would be an increased probability of a market disturbance	14	29	24	19	7	7	192, 70
6 Other (Specify) _____							191, 0

32 In your opinion, to what extent, if any, does access to inter-dealer broker wires represent a competitive advantage for dealers who have such access? (Check one)

Percent			Number
7	1	<input type="checkbox"/> Little or no extent	5
30	2	<input type="checkbox"/> Some extent	22
15	3	<input type="checkbox"/> Moderate extent	11
22	4	<input type="checkbox"/> Great extent	16
26	5	<input type="checkbox"/> Very great extent	19
0	6	<input type="checkbox"/> No basis to judge	0
			<u>73</u>

VI COMMENTS

33 Are there any other aspects of the present regulatory framework (not mentioned in this questionnaire) that, if changed, could improve your firm's competitiveness and/or the efficiency of the government securities market without adversely affecting the prudence of your operations? (Check one)

Percent			Number
74	1	<input type="checkbox"/> No, changes are not needed	46
26	2	<input type="checkbox"/> Yes, the following changes are needed.	16
			<u>62</u>

34. If you have any additional comments about the preceding questions or about the Federal Reserve's oversight of the U.S. Government securities market, please use the space provided below or attach another sheet

Forty-nine dealers submitted additional comments.

THANK YOU FOR YOUR HELP!

PRIMARY DEALER RESPONSES



**U.S. GENERAL ACCOUNTING OFFICE
SURVEY OF THE FEDERAL RESERVE'S OVERSIGHT OF
THE U.S. GOVERNMENT SECURITIES MARKET:
DEALERS' VIEWS**

INSTRUCTIONS:

ID (1 2)
CARD 1 (3)

The U S General Accounting Office (GAO), an independent agency of the Congress responsible for evaluating federal programs, is currently reviewing the U S Government securities market. The purpose of this survey is to obtain the views and perceptions of primary and large non-primary dealers about the adequacy of the Federal Reserve Bank of New York's (FRBNY) oversight of this market.

The questionnaire can be completed in less than one hour. Most of the questions can be quickly answered by checking boxes. The questionnaire should be answered by the addressee and/or trading/credit analysis staff in the company's fixed income or government securities department.

All questionnaire responses will be treated confidentially. Individual responses will not be made available to any other agency. The questionnaire is numbered only to aid us in our follow-up efforts and will not be used to identify you with your response. After the questionnaires have been processed, the link between you and your responses will be destroyed and only summary data will be used in our report to the Congress. Your response is voluntary, however, we cannot make a meaningful assessment of the U S Government securities market without your cooperation.

Please complete the questionnaire and mail it back in the self-addressed, stamped envelope within 10 days after receiving this request. If you have any questions, please call Mr Thomas C Bittman or Mr William C Petersen in New York at (212) 264-0730. In the event the envelope is misplaced, the return address is:

U S General Accounting Office
Mr Thomas C Bittman
Room 4112
26 Federal Plaza
New York, NY 10278

Thank you for your help

* * * * *

Note: Questions 2 through 33 expressed in percentages. The percentages shown may not add to 100 due to rounding. The actual number of respondents is shown on the right-hand side of each question.

I. BACKGROUND

In order to better evaluate overall questionnaire results, we ask that you provide the information requested below. This information will assist us in understanding the perspectives of a wide range of market participants. It should be emphasized that this information will in no manner be used to identify specific firms responding to the questionnaire.

1 Which of the following best describes your firm's role (or your role as a subsidiary, if applicable) in the government securities market? (Check one) (5)

Number of respondents			
11	1	<input type="checkbox"/>	Primary dealer - registered with SEC
13	2	<input type="checkbox"/>	Primary dealer - bank
9	3	<input type="checkbox"/>	Primary dealer - specialist firm
4	4	<input type="checkbox"/>	Nonprimary dealer - registered with SEC
5	5	<input type="checkbox"/>	Nonprimary dealer - bank
6	6	<input type="checkbox"/>	Nonprimary dealer - specialist firm
7	7	<input type="checkbox"/>	Other (Specify) _____
<u>33</u>			

2 What was your firm's approximate average daily customer transaction volume, if any, in Treasury and Federal Agency securities for calendar year 1985? (Check one)

Percent			Number ⁽⁶⁾	
0	1	<input type="checkbox"/>	\$0 — No customer transactions	0
0	2	<input type="checkbox"/>	Under \$25,000,000	0
0	3	<input type="checkbox"/>	\$25,000,000 - \$99,999,999	0
7	4	<input type="checkbox"/>	\$100,000,000 - \$249,999,999	2
19	5	<input type="checkbox"/>	\$250,000,000 - \$499,999,999	6
74	6	<input type="checkbox"/>	\$500,000,000 or more	<u>23</u>
				<u>31</u>

3 What was your firm's approximate average net **daily** inventory, if any, in Treasury and Federal Agency securities during calendar year 1985? (Check one)

Percent	Number	Percent	Number	
0 1 <input type="checkbox"/> \$0 — No positions taken during the year 0	15	4 <input type="checkbox"/> \$100,000,000 - \$249,999,999	5	
3 2 <input type="checkbox"/> Under \$25,000,000	1	21	5 <input type="checkbox"/> \$250,000,000 - \$499,999,999	7
0 3 <input type="checkbox"/> \$25,000,000 - \$99,999,999	0	61	6 <input type="checkbox"/> \$500,000,000 or more	<u>20</u> <u>33</u>

II IMPACT OF RECENT DEALER FAILURES AND OTHER MARKET DISTURBANCES

Starting in May 1982 and continuing through December 1985, a series of dealer failures and other disturbances occurred within the government securities market. The purpose of the following questions is to obtain your firm's perceptions regarding the impact of these events on the overall functioning of the government securities market as well as the effectiveness of resulting changes in market practices and Federal Reserve oversight

4 To what extent, if any, did the following dealer failures or other disturbances temporarily disrupt the overall functioning of the U S Government securities market? (Check one box for each row)

Dealer Failures or Disturbances	Little or no extent	Some extent	Moderate extent	Great extent	Very great extent	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1982 (Percent)							
1 Drysdale Government Securities, Inc	6	6	24	36	27	0	18) 33
2 Comark	52	24	24	0	0	0	19) 33
3 Lombard-Wall, Inc	18	46	9	12	15	0	110) 33
1983							
4 Lion Capital Group	61	21	9	9	0	0	111) 33
1984							
5 Continental Illinois National Bank	30	30	24	12	3	0	112) 33
1985							
6 E S M Government Securities, Inc	18	30	18	30	3	0	113) 33
7 Bevill, Bresler, and Schulman Asset Management Corp	27	30	21	15	6	0	114) 33
8 Parr Securities and Kenney & Branisel, Inc	76	12	12	0	0	0	115) 33
9 Bank of New York (clearing operation computer problems)	27	15	24	21	9	3	116) 33
Other							
10 (Specify) _____							117) 0

5 For the following dealer failures or disturbances, the Federal Reserve System, in some cases, took action such as increasing liquidity in the market. In other cases, the Federal Reserve took no action.

In your opinion, how appropriate or inappropriate was the Federal Reserve's response in containing the impact of each of the following dealer failures or other disturbances? (Check one box in each row.)

Dealer Failures or Disturbances	Very appropriate	Appropriate	Neither appropriate nor inappropriate	Inappropriate	Very inappropriate	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1982 (Percent)							
1 Drysdale Government Securities, Inc	46	39	6	9	0	0	178, 33
2 Comark	9	39	30	0	0	21	169, 33
3 Lombard-Wall, Inc	9	36	27	9	0	18	120, 33
1983							
4 Lion Capital Group	3	38	28	3	0	28	171, 32
1984							
5 Continental Illinois National Bank	39	46	6	3	0	6	122, 33
1985							
6 E S M Government Securities, Inc	9	49	21	9	0	12	121, 33
7 Bevill, Bresler, and Schulman Asset Management Corp	6	39	30	3	0	21	174, 33
8 Parr Securities and Kenney & Branisel, Inc	6	27	36	0	0	30	175, 33
9 Bank of New York (clearing operation computer problems)	36	39	9	3	3	9	178, 33
Other							
10 (Specify) _____							0

6 Did the following dealer failures or other disturbances improve, worsen, or have no effect on your firm's profitability during the period **directly after** the disturbance in question? (Check one box in each row)

Dealer Failures or Disturbances	Greatly improved	Improved	No effect	Worsened	Greatly worsened	No basis to judge	Number	
	(1)	(2)	(3)	(4)	(5)	(6)		
1982							[Percent]	
1 Drysdale Government Securities, Inc	0	18	55	21	6	0	33	
2 Comark	0	3	82	12	0	3	33	
3 Lombard-Wall, Inc	0	15	67	15	0	3	33	
1983								
4 Lion Capital Group	0	3	91	3	0	3	32	
1984								
5 Continental Illinois National Bank	0	15	67	9	3	6	33	
1985								
6 E S M Government Securities, Inc	0	18	67	12	0	3	33	
7 Bevill, Bresler, and Schulman Asset Management Corp	0	15	70	12	0	3	33	
8 Parr Securities and Kenney & Branisel, Inc	0	6	88	3	0	3	33	
9 Bank of New York (clearing operation computer problems)	0	0	79	18	0	3	33	
Other								
10 (Specify) _____ _____							0	

7 The following changes have taken place in the marketplace since 1982 which may reduce the potential for disturbances in the U S Government securities market. How effective or ineffective have each of the following changes been in reducing the potential for disturbances? (Check one box in each row)

Changes to Reduce the Potential for Disturbances	Very effective	Effective	Neither effective nor ineffective	Ineffective	Very ineffective	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Establishment of a dealer surveillance unit within the Federal Reserve Bank of New York (FRBNY)	16	66	13	3	0	3	(38) 32
2 FRBNY's voluntary capital adequacy guidelines	0	59	19	6	3	13	(39) 32
3 FRBNY's investor education program on dealer capital adequacy and proper use of repurchase agreements (RPs)	3	46	24	15	3	9	(40) 33
4 Reduction of the when-issued trading period for new Treasury issues	24	52	15	6	0	3	(41) 33
5 FRBNY reporting program for when-issued commitments	6	64	24	0	0	6	(42) 33
6 Change in valuing RP collateral (inclusion of accrued interest)	73	27	0	0	0	0	(43) 33
7 Increased oversight of RPs by bank regulators	9	36	27	3	0	24	(44) 33
8 Accounting profession's increased emphasis on reporting and auditing practices for RPs	0	42	33	9	0	15	(45) 33
9 Increased emphasis on using written repurchase agreement contracts	15	61	15	3	0	6	(46) 33
10 Increased emphasis on credit analysis of counterparties	42	49	6	0	0	3	(47) 33
11 Other (Specify) _____ _____ _____							2 (48)

III EFFECTIVENESS OF THE FEDERAL RESERVE BANK OF NEW YORK'S (FRBNY) MARKET OVERSIGHT

The purpose of the following questions is to obtain dealer perceptions regarding the importance and effectiveness of FRBNY oversight of primary dealers and the need for federal regulation of the U S Government securities market

(Please note: Questions 8 through 11 should be answered only by primary dealers and aspiring primary dealers reporting daily to the Federal Reserve Bank of New York. All other respondents, Skip to Question 12.)

(If your firm is not familiar with the elements of FRBNY's oversight program, please check "No basis to judge" for each element, as appropriate.)

8 Listed below are elements of the FRBNY's oversight program for primary dealers. Of how much importance, if any, is each of the following elements to the efficient functioning of the government securities market? (Check one box in each row.)

FRBNY Primary Dealer Oversight Program	Little or no importance	Some importance	Moderate importance	Great importance	Very great importance	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
A Analysis of	(Percent)						
1 Transaction volume reports	3	21	55	12	3	6	(49) 33
2 Position reports	0	6	36	39	12	6	(50) 33
3 Dealer financing reports	3	21	30	30	6	9	(51) 33
4 Monthly/annual financial statements	3	9	24	33	24	6	(52) 33
5 Capital adequacy (capital-to-risk ratio)	0	12	12	42	27	6	(53) 33
6 Capital adequacy (liquid capital)	0	9	24	42	21	3	(54) 33
7 Exposure in the when-issued market	6	3	27	55	6	3	(55) 33
B Periodic On-Site Evaluations of							
8 Accounting systems	3	18	42	30	6	0	(56) 33
9 Reporting system and report accuracy	0	12	52	30	6	0	(57) 33
10 Credit analysis function	3	3	30	39	24	0	(58) 33
11 Management of risks	3	3	27	39	27	0	(59) 33
12 Internal financial controls	0	15	24	46	15	0	(60) 33
13 Margining practices and credit exposure levels	0	6	24	49	21	0	(61) 33
14 Review of customer transactions	0	15	42	30	12	0	(62) 33

9 In your opinion, how adequately or inadequately has FRBNY administered each of the following aspects of its primary dealer oversight program for your firm? (Check one box in each row)

		More than adequately	Adequately	Neither adequately nor inadequately	Inadequately	Very inadequately	No basis to judge	
FRBNY Primary Dealer Oversight Program		(1)	(2)	(3)	(4)	(5)	(6)	
A	<u>Analysis of</u>	(Percent)						<u>Number</u>
	1 Transaction volume reports	19	78	0	0	0	3	(63) 32
	2 Position reports	16	81	0	0	0	3	(64) 32
	3 Dealer financing reports	13	81	0	0	0	6	(65) 32
	4 Monthly/annual financial statements	16	75	3	0	0	6	(66) 32
	5 Capital adequacy (capital-to-risk ratio)	16	78	0	0	0	6	(67) 32
	6 Capital adequacy (liquid capital)	16	78	0	0	0	6	(68) 32
	7 Exposure in the when-issued market	16	75	3	0	0	6	(69) 32
B	<u>Periodic On-Site Evaluations of</u>							
	8 Accounting systems	9	81	3	6	0	0	(70) 32
	9 Reporting system and report accuracy	19	75	0	6	0	0	(71) 32
	10 Credit analysis function	19	66	6	9	0	0	(72) 32
	11 Management of risks	16	72	3	9	0	0	(73) 32
	12 Internal financial controls	13	75	6	6	0	0	(74) 32
	13 Margining practices and credit exposure levels	13	78	3	6	0	0	(75) 32
	14 Review of customer transactions	13	74	7	7	0	0	(76) 31

10 In your opinion, should there be more, less, or about the same amount of FRBNY surveillance of primary dealer trading in the following areas related to the government securities market? (Check one box in each row)

FRBNY Surveillance	Much more	More	About the same	Less	Much less	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Exchange-traded futures	0	16	84	0	0	0	(17) 32
2 Over-the-counter forwards and options	3	56	25	0	0	16	(18) 32
3 Repurchase agreements	6	21	73	0	0	0	(19) 33
4 Interest rate/currency swaps	16	36	32	0	0	16	(20) 31
5 CDs, bankers' acceptances, and other money market instruments	6	6	76	3	0	9	(21) 33
6 When-issued trading	6	31	59	3	0	0	(22) 32
7 Blind brokering in the inter-dealer market	18	21	55	3	0	3	(23) 33
8 Settlement of physical securities (mortgage-backed)	15	33	33	0	0	18	(24) 33
9 Other (Specify) _____							0

11 Based on the FRBNY's last full surveillance visit, how adequate or inadequate was each of the following aspects of the FRBNY's on-site evaluation? (Check one box in each row)

FRBNY's Surveillance Visit	More than adequate	Adequate	Neither adequate nor inadequate	Inadequate	Very Inadequate	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Staff's knowledge of the government securities market	19	69	9	3	0	0	(26) 32
2 Staff's knowledge of dealer operations and systems	19	66	13	0	3	0	(27) 32
3 Scope of surveillance visit	16	75	6	3	0	0	(28) 32
4 Depth of surveillance visit	16	69	13	3	0	0	(29) 32
5 Frequency of surveillance visits	6	75	6	13	0	0	(30) 32
6 Communication of surveillance visit results to dealer	22	69	3	6	0	0	(31) 32

ID: 147
 (18) 32

12 Listed below are standards the Federal Reserve uses to designate primary dealers. How relevant, if at all, to the efficient functioning of the government securities market are the following Federal Reserve standards for designating primary dealers? (Check one box in each row.)

Federal Reserve Primary Dealer Standards	Very highly relevant	Highly relevant	Moderately relevant	Somewhat relevant	Little or no relevance	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Volume of transactions with customers	49	21	21	6	3	0	(15) 33
2 Diversity of securities and maturity areas	21	52	27	0	0	0	(16) 33
3 Diversity of customer base	21	46	30	3	0	0	(17) 33
4 Treasury auction participation	21	27	33	12	6	0	(18) 33
5 Capital strength and financial soundness	61	33	3	0	3	0	(19) 33
6 Experience and capacity in trading, sales, and operations	39	52	6	3	0	0	(20) 33
7 Managerial and auditing controls	36	46	18	0	0	0	(21) 33
8 Long-term commitment to the market	52	36	12	0	0	0	(22) 33

(Please note. Primary dealers and aspiring primary dealers reporting daily to the FRBNY, continue, all other respondents skip to Question 15.)

13 As a primary dealer or aspiring primary dealer reporting daily to the FRBNY, in your opinion, is the Federal Reserve's application of its primary dealer standards, in the areas listed below, too lenient, too strict, or about right? (Check one box in each row.)

Federal Reserve Primary Dealer Standards	Much too lenient	Too lenient	About right	Too strict	Much too strict	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Volume of transactions with customers	9	19	63	6	3	0	(23) 32
2 Diversity of securities and maturity areas	3	28	66	3	0	0	32
3 Diversity of customer base	6	19	75	0	0	0	(24) 32
4 Treasury auction participation	6	6	78	6	0	3	(25) 32
5 Capital strength and financial soundness	13	25	63	0	0	0	(26) 32
6 Experience and capacity in trading, sales and operations	6	31	63	0	0	0	(27) 32
7 Managerial and auditing controls	3	22	72	3	0	0	(28) 32
8 Long-term commitment to the market	13	25	63	0	0	0	(29) 32

14 As a primary dealer or aspiring dealer reporting daily to the FRBNY, in your opinion, does the Federal Reserve use the following enforcement measures for ensuring compliance with its standards too frequently, too infrequently, or is the usage about right? (Check one box in each row)

FRBNY Primary Dealer Enforcement Measures	Much too frequently	Too frequently	About right	Too infrequently	Much too infrequently	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Verbal/written admonishment	0	6	50	28	0	16	(21) 32
2 Temporary reduction in open market trading	0	3	31	31	3	31	(22) 32
3 Suspension of open market trading relationship	0	0	38	19	13	31	(23) 32
4 Termination of primary dealer status	3	0	38	19	16	25	(24) 32
5 Other (Specify) _____ _____ _____							0 (25)

15 Does the FRBNY's oversight of primary dealers increase, decrease, or have no effect on your firm's need for a credit check of primary dealers with whom you trade? (Check one)

Percent			Number
9	1	<input type="checkbox"/> Greatly decreases the need	3
38	2	<input type="checkbox"/> Decreases the need	12
53	3	<input type="checkbox"/> No effect on need	17
0	4	<input type="checkbox"/> Increases the need	0
0	5	<input type="checkbox"/> Greatly increases the need	0
0	6	<input type="checkbox"/> No basis to judge	0
			<u>32</u>

16 Some parties believe that primary dealer status effectively denotes that the Federal Reserve will prevent that dealer from defaulting on its obligations. Others disagree, saying that primary dealer status would not prevent default

In your opinion, does primary dealer status denote to your firm that the Federal Reserve will prevent that dealer from defaulting, or not? (Check one)

Percent			Number
19	1	<input type="checkbox"/> Yes, for all primary dealers	6
3	2	<input type="checkbox"/> Yes, but only for bank primary dealers	1
3	3	<input type="checkbox"/> Yes, but only for larger primary dealers	1
0	4	<input type="checkbox"/> Yes, but only for smaller primary dealers	0
72	5	<input type="checkbox"/> No	23
3	6	<input type="checkbox"/> No opinion	1
			<u>32</u>

17 In your opinion, does primary dealer status denote to the public that the Federal Reserve will prevent that dealer from defaulting, or not? (Check one)

Percent	Number
44	14
0	0
3	1
0	0
38	12
16	5
	<u>32</u>

VIEWS ON THE NEED, IF ANY, FOR NEW FEDERAL REGULATION

Presently, no federal agency has direct statutory authority to regulate the U.S. Government securities market. The Federal Reserve's market oversight is conducted on an informal, voluntary basis. Other federal agencies, including the SEC and bank regulators, oversee certain government securities dealers but not the government securities market itself. In response to recent dealer failures and market disturbances, the Congress is considering a number of legislative proposals which would change the regulatory structure of this market.

18. If the Congress determines that the U.S. Government securities market should be regulated, in your opinion, which, if any, of the following securities currently exempt from federal regulation, should be brought under a statutory scheme of regulation? (Check all that apply)

Percent	Number
58	9
33	1
33	11
36	12
9	3
0	0

19 If the U.S. Government securities market is brought under federal regulation, which, if any, of the following provisions should be included under a statutory scheme of regulation? (Check all that apply)

Percent	Number
30	10
52	17
42	14
42	14
55	18
36	12
12	4
3	1
0	0

IV. CAPITAL ADEQUACY GUIDELINES

In May 1985, FRBNY issued capital adequacy guidelines for nonprimary government securities dealers not subject to federal regulatory oversight. Compliance with the capital adequacy guidelines is voluntary.

20. Does your organization currently transact business in U.S. Government securities with any unregulated securities dealers?

Percent	Number
84	26
16	5
	<u>31</u>

21 In conducting business with unregulated nonprimary securities dealers, from how many, if any, have you requested certification of compliance with the FRBNY's capital adequacy guidelines? (Check one.)

Percent	Number
30	8
15	4
0	0
15	4
41	11
	<u>27</u>

(Please note: Nonprimary dealers not currently subject to federal oversight, continue; all other respondents, Go to Question 26.)

22 About how many, if any, of the following parties request management certification of compliance with the capital adequacy guidelines as a condition for doing business with your firm? (If such information is voluntarily provided by your firm, check "Not applicable," as appropriate) (Check one box for each row)

Note: Questions 22 through 25 not applicable to Primary Dealers.

Parties	All or almost all of the parties	Most of the parties	About half of the parties	Some of the parties	Few, if any, of the parties	Not applicable	
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Primary dealers							(146)
2 Nonprimary dealers							(147)
3 Clearing banks							(148)
4 Brokers							(149)
5 Institutional investors							(150)
6 Repurchase agreement counterparties							(151)
7 Other (Specify) _____ _____							(152)

23 Has your firm certified or do you plan to certify compliance with the FRBNY voluntary capital adequacy guidelines? (Check one) (153)

- 1 Yes (Continue.)
- 2 No, but plan to certify by December 31, 1986
- 3 No, but plan to certify after 1986
- 4 No plans to certify
- 5 Undecided

(Skip to Question 26.)

25 Relative to your firm's total operating expenses, how much, if any, additional cost did your firm incur to comply with FRBNY capital adequacy guidelines? (Check one) (155)

- 1 Little or no cost
- 2 Some cost
- 3 Moderate cost
- 4 Great cost
- 5 Very great cost
- 6 No basis to judge

24 If yes, by which standard was compliance measured Federal Reserve calculations or SEC uniform net capital rule? (Check one) (154)

- 1 Federal Reserve calculations
- 2 SEC uniform net capital rule

26 Which of the following immediate actions, if any, should the Federal Reserve encourage dealers to take when daily capital falls below the amount required under the FRBNY voluntary capital adequacy guidelines? (Check all that apply.)

Percent		Number
91	1 <input type="checkbox"/> Replenish capital or reduce position risks	30 (156)
76	2 <input type="checkbox"/> Notify FRBNY	25 (157)
33	3 <input type="checkbox"/> Notify clearing bank	11 (158)
15	4 <input type="checkbox"/> Notify government securities brokers	5 (159)
21	5 <input type="checkbox"/> Notify counterparties/customers	7 (160)
3	6 <input type="checkbox"/> Other (Specify) _____	1 (161)

V. YOUR FIRM'S PERCEPTIONS ABOUT THE STRUCTURE AND FUNCTIONING OF THE GOVERNMENT SECURITIES MARKET

(Please note: Questions 27, 28, and 29 may most appropriately be answered by key staff in your firm's Credit Analysis Department.)

27 In evaluating the creditworthiness of U.S. Government securities dealers with whom your firm trades, how much importance, if any, do you place on the following factors? (Check one box in each row.)

Factors	Very great importance	Great importance	Moderate importance	Some importance	Little or no importance	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1. Audited annual financial statements	53	25	16	6	0	0	162, 32
2. Interim financial statements	9	34	53	0	3	0	163, 32
3. Knowledge of principals and/or management	61	36	3	0	0	0	164, 31
4. Guarantee from parent or affiliate	34	38	19	6	3	0	165, 32
5. Dealer's clearing arrangements	0	16	31	34	19	0	166, 32
6. Management's certification of compliance with FRBNY capital adequacy guidelines	0	13	38	28	22	0	167, 32
7. Independent auditor's year-end confirmation of capital adequacy under FRBNY guidelines	6	13	44	16	22	0	168, 32
8. Nature of firm's regulatory oversight (e.g., SEC-registered dealer, bank dealer, unregulated dealer)	9	34	38	13	6	0	169, 32
9. Primary dealer designation	25	38	22	9	6	0	170, 32
10. Outside credit rating sources	0	13	50	13	25	0	171, 32
11. Status as an FRBNY monthly reporting dealer	3	6	34	19	34	3	172, 32
12. Other (Specify) _____ _____ _____							2 173,

28 In conducting business with the following types of firms that are subsidiaries, from how many of these subsidiaries does your firm request a written guarantee or comfort letter from the parent or affiliate? (Check one box in each row)

Subsidiaries	All or almost all firms	Most firms	About half the firms	Some firms	Few, if any, firms	Not applicable	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Inter-dealer brokers	19	6	6	19	47	3	32 <small>(174)</small>
2 Primary dealers that are subsidiaries of other firms	13	6	3	28	47	3	32 <small>(175)</small>
3 Nonprimary dealers that are subsidiaries of other firms	19	25	13	25	16	3	32 <small>(176)</small>
4 Dealers that do not meet credit standards	66	3	0	0	0	31	32 <small>(177)</small>
5 Dealers conducting transactions on a delayed delivery basis	22	16	6	31	16	9	32 <small>(178)</small>
6 Other (Specify) _____ _____							0 <small>(179)</small>

29 If your firm is organized as a subsidiary, to how many dealers does your parent company or affiliate provide

Percent		written guarantees or comfort letters? (Check one.)	Number
52	1	<input type="checkbox"/> Not applicable (e.g., not a subsidiary)	16
3	2	<input type="checkbox"/> All or almost all of the firms	1
0	3	<input type="checkbox"/> Most of the firms	0
0	4	<input type="checkbox"/> About half of the firms	0
3	5	<input type="checkbox"/> Some of the firms	1
36	6	<input type="checkbox"/> Few, if any, firms	11
7	7	<input type="checkbox"/> No basis to judge	2
			<u>31</u>

INTER-DEALER BROKER WIRES

30 In your opinion, how relevant, if at all, do you consider the following potential criteria for determining which dealers should have access to the inter-dealer broker wires? (Check one box in each row)

Criteria for Broker Wire Access	Very greatly relevant	Greatly relevant	Moderately relevant	Somewhat relevant	Little or no relevance	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Meeting all the requirements for being designated as a primary dealer	65	19	10	3	3	0	(81) 31
2 Recognition as an aspiring primary dealer reporting daily to FRBNY	36	23	19	13	10	0	(82) 31
3 Meeting of minimum trading volume requirements imposed by the brokers	13	0	26	10	48	3	(83) 31
4 Meeting of minimum credit requirements imposed by other dealers which trade through the brokers	72	16	3	3	6	0	(84) 32
5 Meeting of minimum credit requirements imposed by the brokers	26	10	23	7	36	0	(85) 31
6 Other (Specify) _____							(86) 0

31 How likely or unlikely would each of the following effects be if access to inter-dealer broker wires were broadened to include all dealers meeting credit requirements imposed by the brokers? (Check one box in each row)

Possible Effects from Broadening Access to Broker Wires	Highly likely	Likely	Neither likely nor unlikely	Unlikely	Highly unlikely	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Certain primary dealers would reconsider remaining a primary dealer	26	29	7	19	13	7	(87) 31
2 Certain primary dealers would restrict their business with inter-dealer brokers that have broadened access	68	29	0	0	3	0	(88) 31
3 Certain inter-dealer brokers would conduct business on a principal rather than agency basis	36	39	0	13	10	3	(89) 31
4 Liquidity in the government securities market would increase	0	3	29	36	26	7	(90) 31
5 There would be an increased probability of a market disturbance	30	37	17	0	7	10	(92) 30
6 Other (Specify) _____							(91) 0

32 In your opinion, to what extent, if any, does access to inter-dealer broker wires represent a competitive advantage for dealers who have such access? (Check one.)

<u>Percent</u>			<u>Number</u>
16	1	<input type="checkbox"/> Little or no extent	5
48	2	<input type="checkbox"/> Some extent	15
19	3	<input type="checkbox"/> Moderate extent	6
10	4	<input type="checkbox"/> Great extent	3
7	5	<input type="checkbox"/> Very great extent	2
0	6	<input type="checkbox"/> No basis to judge	0
			<u>31</u>

VI. COMMENTS

33 Are there any other aspects of the present regulatory framework (not mentioned in this questionnaire) that, if changed, could improve your firm's competitiveness and/or the efficiency of the government securities market without adversely affecting the prudence of your operations? (Check one)

<u>Percent</u>			<u>Number</u>
68	1	<input type="checkbox"/> No, changes are not needed	19
32	2	<input type="checkbox"/> Yes, the following changes are needed	9
			<u>28</u>

34. If you have any additional comments about the preceding questions or about the Federal Reserve's oversight of the U.S. Government securities market, please use the space provided below or attach another sheet

Nineteen primary dealers submitted additional comments.

THANK YOU FOR YOUR HELP!

NONPRIMARY DEALER RESPONSES



U.S. GENERAL ACCOUNTING OFFICE
SURVEY OF THE FEDERAL RESERVE'S OVERSIGHT OF
THE U.S. GOVERNMENT SECURITIES MARKET:
DEALERS' VIEWS

INSTRUCTIONS.

ID (12)
 CARD (13)

The U S General Accounting Office (GAO), an independent agency of the Congress responsible for evaluating federal programs, is currently reviewing the U S Government securities market. The purpose of this survey is to obtain the views and perceptions of primary and large non-primary dealers about the adequacy of the Federal Reserve Bank of New York's (FRBNY) oversight of this market.

The questionnaire can be completed in less than one hour. Most of the questions can be quickly answered by checking boxes. The questionnaire should be answered by the addressee and/or trading/credit analysis staff in the company's fixed income or government securities department.

All questionnaire responses will be treated confidentially. Individual responses will not be made available to any other agency. The questionnaire is numbered only to aid us in our follow-up efforts and will not be used to identify you with your response. After the questionnaires have been processed, the link between you and your responses will be destroyed and only summary data will be used in our report to the Congress. Your response is voluntary, however, we cannot make a meaningful assessment of the U.S. Government securities market without your cooperation.

Please complete the questionnaire and mail it back in the self-addressed, stamped envelope within 10 days after receiving this request. If you have any questions, please call Mr. Thomas C. Bittman or Mr. William C. Petersen in New York at (212) 264-0730. In the event the envelope is misplaced, the return address is:

U.S. General Accounting Office
 Mr. Thomas C. Bittman
 Room 4112
 26 Federal Plaza
 New York, NY 10278

Thank you for your help

* * * * *

Note: Questions 2 through 33 expressed in percentages. The percentages shown may not add to 100 due to rounding. The actual number of respondents is shown on the right-hand side of each question.

I. BACKGROUND

In order to better evaluate overall questionnaire results, we ask that you provide the information requested below. This information will assist us in understanding the perspectives of a wide range of market participants. It should be emphasized that this information will in no manner be used to identify specific firms responding to the questionnaire.

1 Which of the following best describes your firm's role (or your role as a subsidiary, if applicable) in the government securities market? (Check one)

- | | | | |
|-----------|--------------------------|---|--|
| 1 | <input type="checkbox"/> | Primary dealer - registered with SEC | |
| 2 | <input type="checkbox"/> | Primary dealer - bank | |
| 3 | <input type="checkbox"/> | Primary dealer - specialist firm | |
| 13 | <input type="checkbox"/> | Nonprimary dealer - registered with SEC | |
| 23 | <input type="checkbox"/> | Nonprimary dealer - bank | |
| 5 | <input type="checkbox"/> | Nonprimary dealer - specialist firm | |
| 7 | <input type="checkbox"/> | Other (Specify) _____ | |
| <u>41</u> | | | |

2 What was your firm's approximate average daily customer transaction volume, if any, in Treasury and Federal Agency securities for calendar year 1985? (Check one.)

- | | | | <u>Number</u> |
|----|--------------------------|--------------------------------|---------------|
| 5 | <input type="checkbox"/> | \$0 — No customer transactions | 2 |
| 26 | <input type="checkbox"/> | Under \$25,000,000 | 10 |
| 39 | <input type="checkbox"/> | \$25,000,000 - \$99,999,999 | 15 |
| 21 | <input type="checkbox"/> | \$100,000,000 - \$249,999,999 | 8 |
| 10 | <input type="checkbox"/> | \$250,000,000 - \$499,999,999 | 4 |
| 0 | <input type="checkbox"/> | \$500,000,000 or more | <u>0</u> |
| | | | <u>39</u> |

3 What was your firm's approximate average net daily inventory, if any, in Treasury and Federal Agency securities during calendar year 1985? (Check one)

Percent		Number		Percent		Number	
0	<input type="checkbox"/>	15	4	<input type="checkbox"/>	100,000,000 - \$249,999,999	6	
40	<input type="checkbox"/>	16	8	<input type="checkbox"/>	\$250,000,000 - \$499,999,999	3	
38	<input type="checkbox"/>	15	0	<input type="checkbox"/>	\$500,000,000 or more	0	
						<u>40</u>	

II. IMPACT OF RECENT DEALER FAILURES AND OTHER MARKET DISTURBANCES

Starting in May 1982 and continuing through December 1985, a series of dealer failures and other disturbances occurred within the government securities market. The purpose of the following questions is to obtain your firm's perceptions regarding the impact of these events on the overall functioning of the government securities market as well as the effectiveness of resulting changes in market practices and Federal Reserve oversight.

4 To what extent, if any, did the following dealer failures or other disturbances temporarily disrupt the overall functioning of the U S Government securities market? (Check one box for each row)

Dealer Failures or Disturbances	Extent of Disruption						Number
	(1) Little or no extent	(2) Some extent	(3) Moderate extent	(4) Great extent	(5) Very great extent	(6) No basis to judge	
1982							
1 Drysdale Government Securities, Inc.	5	10	18	30	33	5	(10) 40
2 Comark	38	32	11	3	0	16	(9) 37
3 Lombard-Wall, Inc	15	26	33	18	3	5	(10) 39
1983							
4. Lion Capital Group	40	30	20	0	0	10	(11) 40
1984							
5 Continental Illinois National Bank	21	13	23	31	10	3	(12) 39
1985							
6. E S M. Government Securities, Inc	3	15	44	21	15	3	(13) 39
7 Bevill, Bresler, and Schulman Asset Management Corp	15	10	41	23	5	5	(14) 39
8 Parr Securities and Kenney & Branisel, Inc	51	33	10	3	0	3	(15) 39
9 Bank of New York (clearing operation computer problems)	30	33	25	5	3	5	(16) 40
Other							
10 (Specify) _____							(17) 1

5. For the following dealer failures or disturbances, the Federal Reserve System, in some cases, took action such as increasing liquidity in the market. In other cases, the Federal Reserve took no action.

In your opinion, how appropriate or inappropriate was the Federal Reserve's response in containing the impact of each of the following dealer failures or other disturbances? (Check one box in each row.)

Dealer Failures or Disturbances	Very appropriate	Appropriate	Neither appropriate nor inappropriate	Inappropriate	Very inappropriate	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1982							
(Percent)							
1 Drysdale Government Securities, Inc	25	55	5	0	0	15	(18) 40
2 Comark	18	23	20	0	0	40	(19) 40
3 Lombard-Wall, Inc	23	43	13	0	0	23	(20) 40
1983							
4 Lion Capital Group	18	28	23	0	0	33	(21) 40
1984							
5 Continental Illinois National Bank	50	35	5	0	3	8	(22) 40
1985							
6 E S M Government Securities, Inc	25	50	10	0	0	15	(23) 40
7 Bevill, Bresler, and Schulman Asset Management Corp	23	39	18	0	0	21	(24) 39
8. Parr Securities and Kenney & Branisel, Inc	18	30	25	0	0	28	(25) 40
9 Bank of New York (clearing operation computer problems)	35	38	10	0	0	18	(26) 40
Other							
10 (Specify) _____							(27) 1

6 Did the following dealer failures or other disturbances improve, worsen, or have no effect on your firm's profitability during the period directly after the disturbance in question? (Check one box in each row.)

Dealer Failures or Disturbances	Greatly improved	Improved	No effect	Worsened	Greatly worsened	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1982							
(Percent)							
1 Drysdale Government Securities, Inc	0	21	49	15	3	13	129, 39
2 Comark	0	0	82	0	0	18	129, 38
3 Lombard-Wall, Inc	0	10	72	5	3	10	130, 39
1983							
4 Lion Capital Group	0	3	82	3	0	13	131, 38
1984							
5 Continental Illinois National Bank	3	29	53	8	3	5	132, 38
1985							
6 E S M Government Securities, Inc	0	15	58	20	3	5	133, 40
7 Bevill, Bresler, and Schulman Asset Management Corp	0	10	65	18	3	5	134, 40
8 Parr Securities and Kenney & Branisel, Inc	0	8	77	13	0	3	135, 39
9. Bank of New York (clearing operation computer problems)	0	0	79	3	0	18	136, 38
Other							
10 (Specify) _____ _____							137, 0

7 The following changes have taken place in the marketplace since 1982 which may reduce the potential for disturbances in the U S Government securities market How effective or ineffective have each of the following changes been in reducing the potential for disturbances? (Check one box in each row)

Changes to Reduce the Potential for Disturbances	Very effective	Effective	Neither effective nor ineffective	Ineffective	Very ineffective	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Establishment of a dealer surveillance unit within the Federal Reserve Bank of New York (FRBNY)	10	54	5	0	0	32	41 <small>(138)</small>
2 FRBNY's voluntary capital adequacy guidelines	5	46	24	7	2	15	41 <small>(139)</small>
3. FRBNY's investor education program on dealer capital adequacy and proper use of repurchase agreements (RPs)	2	46	20	7	0	24	41 <small>(140)</small>
4. Reduction of the when-issued trading period for new Treasury issues	20	46	27	5	0	2	41 <small>(141)</small>
5 FRBNY reporting program for when-issued commitments	5	46	29	0	0	20	41 <small>(142)</small>
6 Change in valuing RP collateral (inclusion of accrued interest)	54	44	2	0	0	0	41 <small>(143)</small>
7. Increased oversight of RPs by bank regulators	17	54	15	0	0	15	41 <small>(144)</small>
8 Accounting profession's increased emphasis on reporting and auditing practices for RPs	15	56	20	5	0	5	41 <small>(145)</small>
9 Increased emphasis on using written repurchase agreement contracts	23	40	25	10	0	3	40 <small>(146)</small>
10 Increased emphasis on credit analysis of counterparties	29	66	2	2	0	0	41 <small>(147)</small>
11 Other (Specify) _____ _____ _____							2 <small>(148)</small>

III EFFECTIVENESS OF THE FEDERAL RESERVE BANK OF NEW YORK'S (FRBNY) MARKET OVERSIGHT

The purpose of the following questions is to obtain dealer perceptions regarding the importance and effectiveness of FRBNY oversight of primary dealers and the need for federal regulation of the U S Government securities market

(Please note: Questions 8 through 11 should be answered only by primary dealers and aspiring primary dealers reporting daily to the Federal Reserve Bank of New York. All other respondents, Skip to Question 12.)

(If your firm is not familiar with the elements of FRBNY's oversight program, please check "No basis to judge" for each element, as appropriate)

8 Listed below are elements of the FRBNY's oversight program for primary dealers Of how much importance, if any, is each of the following elements to the efficient functioning of the government securities market? (Check one box in each row)

Note: Responses for questions 8 through 11, 13, and 14 reflect all aspiring primary dealers reporting daily to the FRBNY as of April 1986. The number of aspiring primary dealers is not public information.

	<i>Little or no importance</i>	<i>Some importance</i>	<i>Moderate importance</i>	<i>Great importance</i>	<i>Very great importance</i>	<i>No basis to judge</i>	
	(1)	(2)	(3)	(4)	(5)	(6)	
FRBNY Primary Dealer Oversight Program							
A Analysis of (Percent)							
1 Transaction volume reports	0	0	57	29	0	14	(49)
2 Position reports	0	0	43	29	14	14	(50)
3 Dealer financing reports	0	0	57	29	0	14	(51)
4 Monthly/annual financial statements	0	0	17	67	0	17	(52)
5 Capital adequacy (capital-to-risk ratio)	0	0	14	43	29	14	(53)
6 Capital adequacy (liquid capital)	0	0	14	57	14	14	(54)
7 Exposure in the when-issued market	0	0	14	29	29	29	(55)
B Periodic On-Site Evaluations of:							
8 Accounting systems	0	0	43	14	14	29	(56)
9 Reporting system and report accuracy	0	0	29	14	29	29	(57)
10 Credit analysis function	0	0	29	14	29	29	(58)
11 Management of risks	0	0	0	57	14	29	(59)
12 Internal financial controls	0	0	14	43	14	29	(60)
13 Margining practices and credit exposure levels	0	0	0	43	29	29	(61)
14 Review of customer transactions	14	0	14	29	14	29	(62)

9 In your opinion, how adequately or inadequately has FRBNY administered each of the following aspects of its primary dealer oversight program for your firm? (Check one box in each row)

	More than adequately	Adequately	Neither adequately nor inadequately	Inadequately	Very inadequately	No basis to judge	
FRBNY Primary Dealer Oversight Program	(1)	(2)	(3)	(4)	(5)	(6)	
A. Analysis of:							
	(Percent)						
1 Transaction volume reports	29	57	0	0	0	14	(163)
2 Position reports	29	57	0	0	0	14	(164)
3 Dealer financing reports	29	57	0	0	0	14	(165)
4 Monthly/annual financial statements	14	71	0	0	0	14	(166)
5 Capital adequacy (capital-to-risk ratio)	29	57	0	0	0	14	(167)
6 Capital adequacy (liquid capital)	14	71	0	0	0	14	(168)
7. Exposure in the when-issued market	29	29	0	0	0	43	(169)
B. Periodic On-Site Evaluations of:							
8 Accounting systems	14	43	0	0	0	43	(170)
9 Reporting system and report accuracy	0	57	0	0	0	43	(171)
10 Credit analysis function	14	43	0	0	0	43	(172)
11 Management of risks	14	43	0	0	0	43	(173)
12 Internal financial controls	14	43	0	0	0	43	(174)
13. Margining practices and credit exposure levels	14	43	0	0	0	43	(175)
14 Review of customer transactions	0	57	0	0	0	43	(176)

10 In your opinion, should there be more, less, or about the same amount of FRBNY surveillance of primary dealer trading in the following areas related to the government securities market? (Check one box in each row.)

FRBNY Surveillance	Much more	More	About the same	Less	Much less	No basis to judge	
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Exchange-traded futures	0	0	86	0	14	0	(177)
2 Over-the-counter forwards and options	14	43	43	0	0	0	(178)
3 Repurchase agreements	0	0	100	0	0	0	(179)
4 Interest rate/currency swaps	0	14	57	0	0	29	(180)
5 CDs, bankers' acceptances, and other money market instruments	0	29	71	0	0	0	(181)
6 When-issued trading	0	14	86	0	0	0	(182)
7 Blind brokering in the inter-dealer market	29	0	71	0	0	0	(183)
8 Settlement of physical securities (mortgage-backed)	14	0	71	0	14	0	(184)
9 Other (Specify) _____							(185)

11 Based on the FRBNY's last full surveillance visit, how adequate or inadequate was each of the following aspects of the FRBNY's on-site evaluation? (Check one box in each row.)

FRBNY's Surveillance Visit	More than adequate	Adequate	Neither adequate nor inadequate	Inadequate	Very Inadequate	No basis to judge	
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Staff's knowledge of the government securities market	43	57	0	0	0	0	(186)
2 Staff's knowledge of dealer operations and systems	43	57	0	0	0	0	(187)
3 Scope of surveillance visit	57	43	0	0	0	0	(188)
4 Depth of surveillance visit	43	57	0	0	0	0	(189)
5 Frequency of surveillance visits	0	86	0	0	0	14	(190)
6 Communication of surveillance visit results to dealer	14	43	14	14	0	14	(191)

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12 Listed below are standards the Federal Reserve uses to designate primary dealers. How relevant, if at all, to the efficient functioning of the government securities market are the following Federal Reserve standards for designating primary dealers? (Check one box in each row.)

Federal Reserve Primary Dealer Standards	Very highly relevant	Highly relevant	Moderately relevant	Somewhat relevant	Little or no relevance	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Volume of transactions with customers	18	40	13	20	5	5	15,40
2 Diversity of securities and maturity areas	15	23	35	23	0	5	16,40
3 Diversity of customer base	15	13	50	18	0	5	17,40
4 Treasury auction participation	18	30	35	10	3	5	18,40
5 Capital strength and financial soundness	72	21	3	0	0	5	19,39
6 Experience and capacity in trading, sales, and operations	48	40	8	0	0	5	110,40
7 Managerial and auditing controls	43	45	3	5	0	5	111,40
8 Long-term commitment to the market	58	25	13	0	0	5	112,40

(Please note: Primary dealers and aspiring primary dealers reporting daily to the FRBNY, continue; all other respondents skip to Question 15.)

13 As a primary dealer or aspiring primary dealer reporting daily to the FRBNY, in your opinion, is the Federal Reserve's application of its primary dealer standards, in the areas listed below, too lenient, too strict, or about right? (Check one box in each row.)

Federal Reserve Primary Dealer Standards	Much too lenient	Too lenient	About right	Too strict	Much too strict	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Volume of transactions with customers	0	0	86	14	0	0	113
2 Diversity of securities and maturity areas	0	0	100	0	0	0	114
3 Diversity of customer base	0	0	100	0	0	0	115
4 Treasury auction participation	0	0	86	14	0	0	116
5 Capital strength and financial soundness	0	14	86	0	0	0	117
6 Experience and capacity in trading, sales and operations	0	0	100	0	0	0	118
7 Managerial and auditing controls	0	0	100	0	0	0	119
8 Long-term commitment to the market	0	14	86	0	0	0	120

14 As a primary dealer or aspiring dealer reporting daily to the FRBNY, in your opinion, does the Federal Reserve use the following enforcement measures for ensuring compliance with its standards too frequently, too infrequently, or is the usage about right? (Check one box in each row.)

	Much too frequently	Too frequently	About right	Too infrequently	Much too infrequently	No basis to judge	
FRBNY Primary Dealer Enforcement Measures	(1)	(2)	(3)	(4)	(5)	(6)	
1 Verbal/written admonishment	0	0	43	0	0	57	(21)
2 Temporary reduction in open market trading	0	0	29	0	0	71	(22)
3 Suspension of open market trading relationship	0	0	0	29	0	71	(23)
4 Termination of primary dealer status	0	0	0	29	29	43	(24)
5 Other (Specify) _____ _____ _____							(25)

15 Does the FRBNY's oversight of primary dealers increase, decrease, or have no effect on your firm's need for a credit check of primary dealers with whom you trade? (Check one)

Percent			Number
10	<input type="checkbox"/>	Greatly decreases the need	4
32	<input type="checkbox"/>	Decreases the need	13
56	<input type="checkbox"/>	No effect on need	23
0	<input type="checkbox"/>	Increases the need	0
0	<input type="checkbox"/>	Greatly increases the need	0
2	<input type="checkbox"/>	No basis to judge	1
			<u>41</u>

16 Some parties believe that primary dealer status effectively denotes that the Federal Reserve will prevent that dealer from defaulting on its obligations. Others disagree, saying that primary dealer status would not prevent default.

In your opinion, does primary dealer status denote to your firm that the Federal Reserve will prevent that dealer from defaulting, or not? (Check one)

Percent			Number
5	<input type="checkbox"/>	Yes, for all primary dealers	2
5	<input type="checkbox"/>	Yes, but only for bank primary dealers	2
2	<input type="checkbox"/>	Yes, but only for larger primary dealers	1
0	<input type="checkbox"/>	Yes, but only for smaller primary dealers	0
88	<input type="checkbox"/>	No	36
0	<input type="checkbox"/>	No opinion	0
			<u>41</u>

17 In your opinion, does primary dealer status denote to the public that the Federal Reserve will prevent that dealer from defaulting, or not? (Check one.)

Percent	Number
42	17
2	1
2	1
0	0
44	18
10	4
	<u>41</u>

VIEWS ON THE NEED, IF ANY, FOR NEW FEDERAL REGULATION

Presently, no federal agency has direct statutory authority to regulate the U.S. Government securities market. The Federal Reserve's market oversight is conducted on an informal, voluntary basis. Other federal agencies, including the SEC and bank regulators, oversee certain government securities dealers but not the government securities market itself. In response to recent dealer failures and market disturbances, the Congress is considering a number of legislative proposals which would change the regulatory structure of this market.

18 If the Congress determines that the U.S. Government securities market should be regulated, in your opinion, which, if any, of the following securities currently exempt from federal regulation, should be brought under a statutory scheme of regulation? (Check all that apply.)

Percent	Number
63	26
22	9
22	9
29	12
2	1
5	2

19 If the U.S. Government securities market is brought under federal regulation, which, if any, of the following provisions should be included under a statutory scheme of regulation? (Check all that apply.)

Percent	Number
27	11
42	17
49	20
37	15
71	29
49	20
39	16
5	2
2	1

IV. CAPITAL ADEQUACY GUIDELINES

In May 1985, FRBNY issued capital adequacy guidelines for nonprimary government securities dealers not subject to federal regulatory oversight. Compliance with the capital adequacy guidelines is voluntary.

20. Does your organization currently transact business in U.S. Government securities with any unregulated securities dealers?

Percent	Number
44	18
56	23
	<u>41</u>

21. In conducting business with unregulated nonprimary securities dealers, from how many, if any, have you requested certification of compliance with the FRBNY's capital adequacy guidelines? (Check one.)

Percent	Number
18	3
12	2
0	0
6	1
65	11
	<u>17</u>

(Please note: Nonprimary dealers not currently subject to federal oversight, continue; all other respondents, Go to Question 26.)

22 About how many, if any, of the following parties request management certification of compliance with the capital adequacy guidelines as a condition for doing business with your firm? (If such information is voluntarily provided by your firm, check "Not applicable," as appropriate.) (Check one box for each row)

Note: There were only five unregulated dealers in our survey sample. Because of this group's low response rate to questions 22 through 25, we are not reporting these responses.

Parties	All or almost all of the parties	Most of the parties	About half of the parties	Some of the parties	Few, if any, of the parties	Not applicable
	(1)	(2)	(3)	(4)	(5)	(6)
1 Primary dealers						
2 Nonprimary dealers						
3 Clearing banks						
4 Brokers						
5 Institutional investors						
6 Repurchase agreement counterparties						
7 Other (Specify) _____						

23 Has your firm certified or do you plan to certify compliance with the FRBNY voluntary capital adequacy guidelines? (Check one) ⁽⁵³⁾

- 1 Yes (Continue.)
 - 2 No, but plan to certify by December 31, 1986
 - 3 No, but plan to certify after 1986
 - 4 No plans to certify
 - 5 Undecided
- (Skip to Question 26.)

24 If yes, by which standard was compliance measured Federal Reserve calculations or SEC uniform net capital rule? (Check one) ⁽⁵⁴⁾

- 1 Federal Reserve calculations
- 2 SEC uniform net capital rule

25 Relative to your firm's total operating expenses, how much, if any, additional cost did your firm incur to comply with FRBNY capital adequacy guidelines? (Check one) ⁽⁵⁵⁾

- 1 Little or no cost
- 2 Some cost
- 3 Moderate cost
- 4 Great cost
- 5 Very great cost
- 6 No basis to judge

26 Which of the following immediate actions, if any, should the Federal Reserve encourage dealers to take when daily capital falls below the amount required under the FRBNY voluntary capital adequacy guidelines? (Check all that apply)

Percent			Number
76	1	<input type="checkbox"/> Replenish capital or reduce position risks	31 ⁽⁵⁶⁾
76	2	<input type="checkbox"/> Notify FRBNY	31 ⁽⁵⁷⁾
24	3	<input type="checkbox"/> Notify clearing bank	10 ⁽⁵⁸⁾
7	4	<input type="checkbox"/> Notify government securities brokers	3 ⁽⁵⁹⁾
5	5	<input type="checkbox"/> Notify counterparties/customers	2 ⁽⁶⁰⁾
2	6	<input type="checkbox"/> Other (Specify) _____	1 ⁽⁶¹⁾

V YOUR FIRM'S PERCEPTIONS ABOUT THE STRUCTURE AND FUNCTIONING OF THE GOVERNMENT SECURITIES MARKET

(Please note: Questions 27, 28, and 29 may most appropriately be answered by key staff in your firm's Credit Analysis Department.)

27 In evaluating the creditworthiness of U S Government securities dealers with whom your firm trades, how much importance, if any, do you place on the following factors? (Check one box in each row)

Factors	Very great importance	Great importance	Moderate importance	Some importance	Little or no importance	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Audited annual financial statements	44	44	10	3	0	0	¹⁶² 39
2. Interim financial statements	23	33	33	5	5	0	¹⁶³ 39
3 Knowledge of principals and/or management	59	21	18	3	0	0	¹⁶⁴ 39
4 Guarantee from parent or affiliate	23	36	23	10	8	0	¹⁶⁵ 39
5 Dealer's clearing arrangements	0	17	25	28	22	8	¹⁶⁶ 36
6 Management's certification of compliance with FRBNY capital adequacy guidelines	8	18	29	18	16	11	¹⁶⁷ 38
7 Independent auditor's year-end confirmation of capital adequacy under FRBNY guidelines	11	18	32	18	16	5	¹⁶⁸ 38
8. Nature of firm's regulatory oversight (e.g., SEC-registered dealer, bank dealer, unregulated dealer)	8	56	18	10	5	3	¹⁶⁹ 39
9 Primary dealer designation	23	40	23	15	0	0	¹⁷⁰ 40
10 Outside credit rating sources	3	18	41	10	23	5	¹⁷¹ 39
11 Status as an FRBNY monthly reporting dealer	3	21	31	26	18	3	¹⁷² 39
12. Other (Specify) _____ _____ _____							¹⁷³ 3

28 In conducting business with the following types of firms that are subsidiaries, from how many of these subsidiaries does your firm request a written guarantee or comfort letter from the parent or affiliate? (Check one box in each row)

Subsidiaries	All or almost all firms	Most firms	About half the firms	Some firms	Few, if any, firms	Not applicable	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Inter-dealer brokers	11	3	0	6	42	39	36
2 Primary dealers that are subsidiaries of other firms	11	16	3	14	43	14	37
3 Nonprimary dealers that are subsidiaries of other firms	28	6	0	11	39	17	36
4 Dealers that do not meet credit standards	24	0	0	3	11	62	37
5 Dealers conducting transactions on a delayed delivery basis	11	5	5	14	30	35	37
6 Other (Specify) _____ _____							1

29 If your firm is organized as a subsidiary, to how many dealers does your parent company or affiliate provide written guarantees or comfort letters? (Check one)

Percent			Number
70	1	<input type="checkbox"/> Not applicable (e.g., not a subsidiary)	21
0	2	<input type="checkbox"/> All or almost all of the firms	0
3	3	<input type="checkbox"/> Most of the firms	1
0	4	<input type="checkbox"/> About half of the firms	0
3	5	<input type="checkbox"/> Some of the firms	1
23	6	<input type="checkbox"/> Few, if any, firms	7
0	7	<input type="checkbox"/> No basis to judge	0
			<u>30</u>

INTER-DEALER BROKER WIRES

30 In your opinion, how relevant, if at all, do you consider the following potential criteria for determining which dealers should have access to the inter-dealer broker wires? (Check one box in each row)

Criteria for Broker Wire Access	Very greatly relevant	Greatly relevant	Moderately relevant	Somewhat relevant	Little or no relevance	No basis to judge	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1 Meeting all the requirements for being designated as a primary dealer	22	16	3	11	43	5	(181) 37
2 Recognition as an aspiring primary dealer reporting daily to FRBNY	19	19	5	16	35	5	(182) 37
3 Meeting of minimum trading volume requirements imposed by the brokers	3	8	16	19	46	8	(183) 37
4 Meeting of minimum credit requirements imposed by other dealers which trade through the brokers	41	38	3	5	8	5	(184) 37
5 Meeting of minimum credit requirements imposed by the brokers	30	38	8	5	14	5	(185) 37
6. Other (Specify) _____							(186) 2

31. How likely or unlikely would each of the following effects be if access to inter-dealer broker wires were broadened to include all dealers meeting credit requirements imposed by the brokers? (Check one box in each row.)

Possible Effects from Broadening Access to Broker Wires	Highly likely	Likely	Neither likely nor unlikely	Unlikely	Highly unlikely	No opinion	Number
	(1)	(2)	(3)	(4)	(5)	(6)	
1. Certain primary dealers would reconsider remaining a primary dealer	15	36	8	21	13	8	(187) 39
2. Certain primary dealers would restrict their business with inter-dealer brokers that have broadened access	13	44	23	8	5	8	(188) 39
3. Certain inter-dealer brokers would conduct business on a principal rather than agency basis	8	18	41	15	5	13	(189) 39
4. Liquidity in the government securities market would increase	15	51	13	18	3	0	(190) 39
5. There would be an increased probability of a market disturbance	3	23	31	31	8	5	(192) 39
6. Other (Specify) _____							(191) 0

32. In your opinion, to what extent, if any, does access to inter-dealer broker wires represent a competitive advantage for dealers who have such access? (Check one.)

<u>Percent</u>			<u>Number</u>
0	1	<input type="checkbox"/> Little or no extent	<u>0</u>
17	2	<input type="checkbox"/> Some extent	7
12	3	<input type="checkbox"/> Moderate extent	5
29	4	<input type="checkbox"/> Great extent	12
42	5	<input type="checkbox"/> Very great extent	17
0	6	<input type="checkbox"/> No basis to judge	<u>0</u>
			<u>41</u>

34 If you have any additional comments about the preceding questions or about the Federal Reserve's oversight of the U S. Government securities market, please use the space provided below or attach another sheet.

Twenty-nine nonprimary dealers submitted additional comments.

VI. COMMENTS

33 Are there any other aspects of the present regulatory framework (not mentioned in this questionnaire) that, if changed, could improve your firm's competitiveness and/or the efficiency of the government securities market without adversely affecting the prudence of your operations? (Check one)

<u>Percent</u>			<u>Number</u>
79	1	<input type="checkbox"/> No, changes are not needed	<u>26</u>
21	2	<input type="checkbox"/> Yes, the following changes are needed	<u>7</u>
			<u>33</u>

THANK YOU FOR YOUR HELP!

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