

Fed to Test Allowing Smaller Broker-Dealers as Counterparties
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By Caroline Salas Gage and Liz Capo McCormick
Feb. 20 (Bloomberg) -- The Federal Reserve Bank of New York said it will test allowing "small broker-dealers" to act as counterparties in sales and purchases of Treasuries for the central bank's portfolio.

The New York Fed will conduct a one-year pilot program that will let as many as five firms participate, the regional reserve bank said in a statement today. Firms will only be able to partake in permanent open-market operations for Treasuries. "The Treasury Operations Counterparty Pilot Program is being launched as a way for the New York Fed to continue to explore the effectiveness and feasibility of expanding operations to a broader range of counterparties," the statement said. "The length of the program should not be viewed as providing any information about the stance of monetary policy." Firms eligible for the pilot program announced today would have to possess net regulatory capital of \$1 million to \$50 million, and a minimum total owners' equity of \$1 million, according to the Fed statement.

The Fed has since 2010 been expanding its tri-party reverse repo counterparties, those which it will eventually use for temporary open market operations to drain the trillions of dollars in reserves that have been added to the banking system as a byproduct of the expansion of the central bank's balance sheet. The counterparties, which historically were solely the Fed's primary dealers, now includes firms such as money market mutual funds, government sponsored agencies, banks and savings institutions.

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