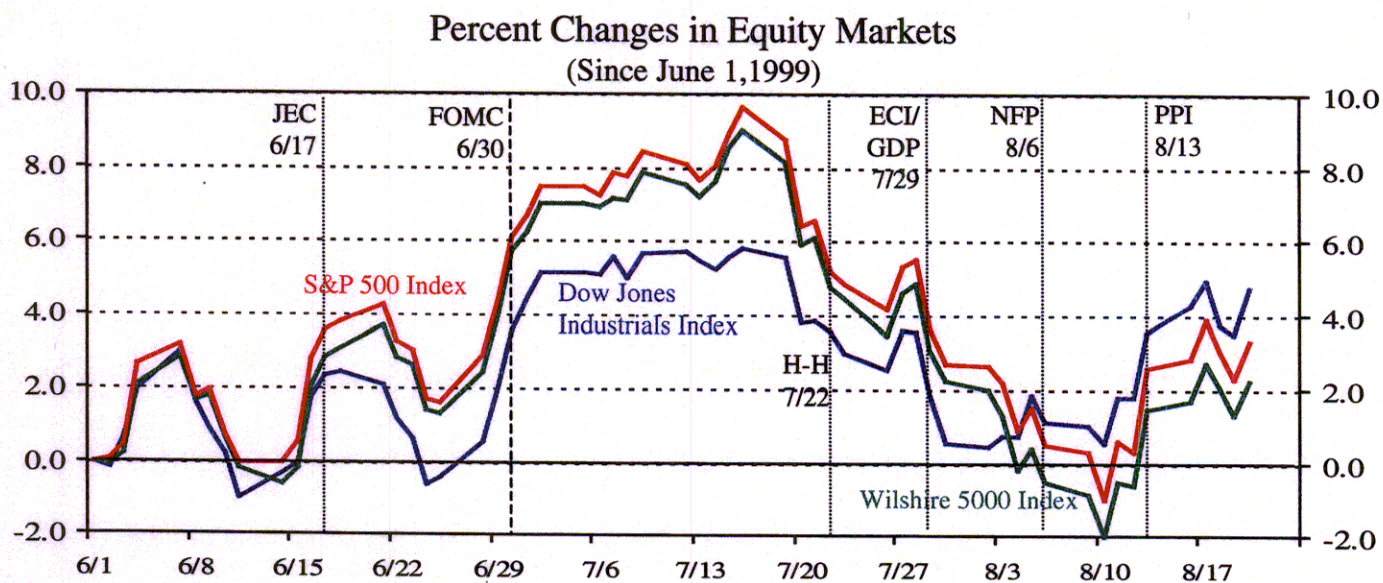
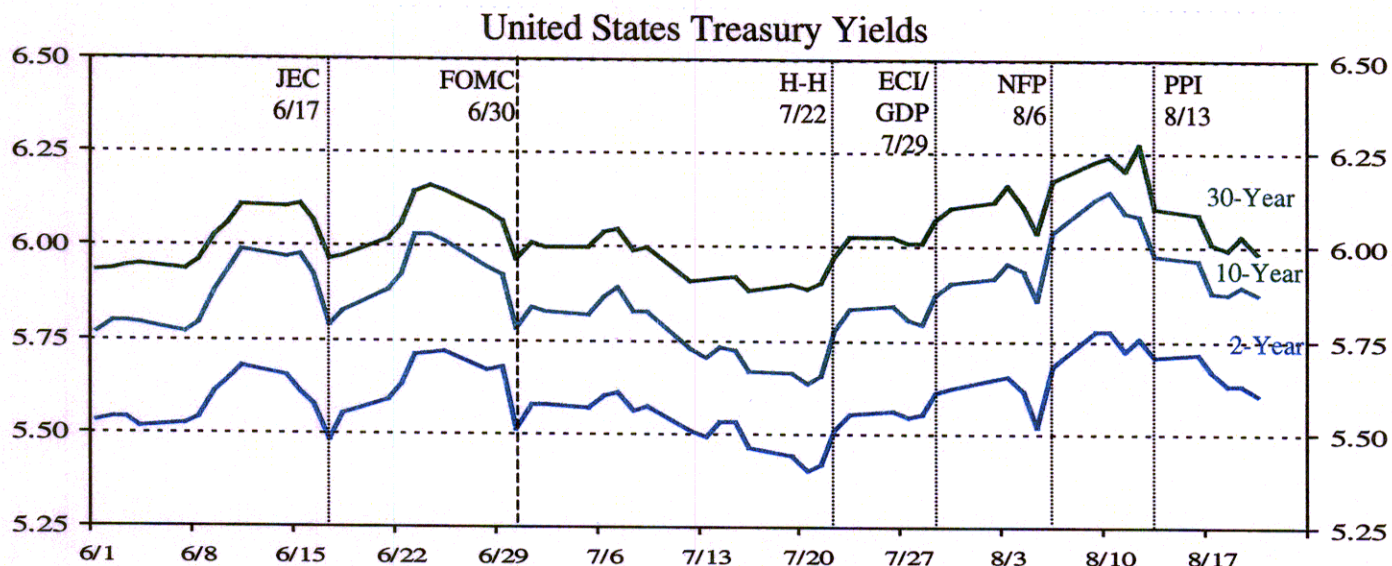
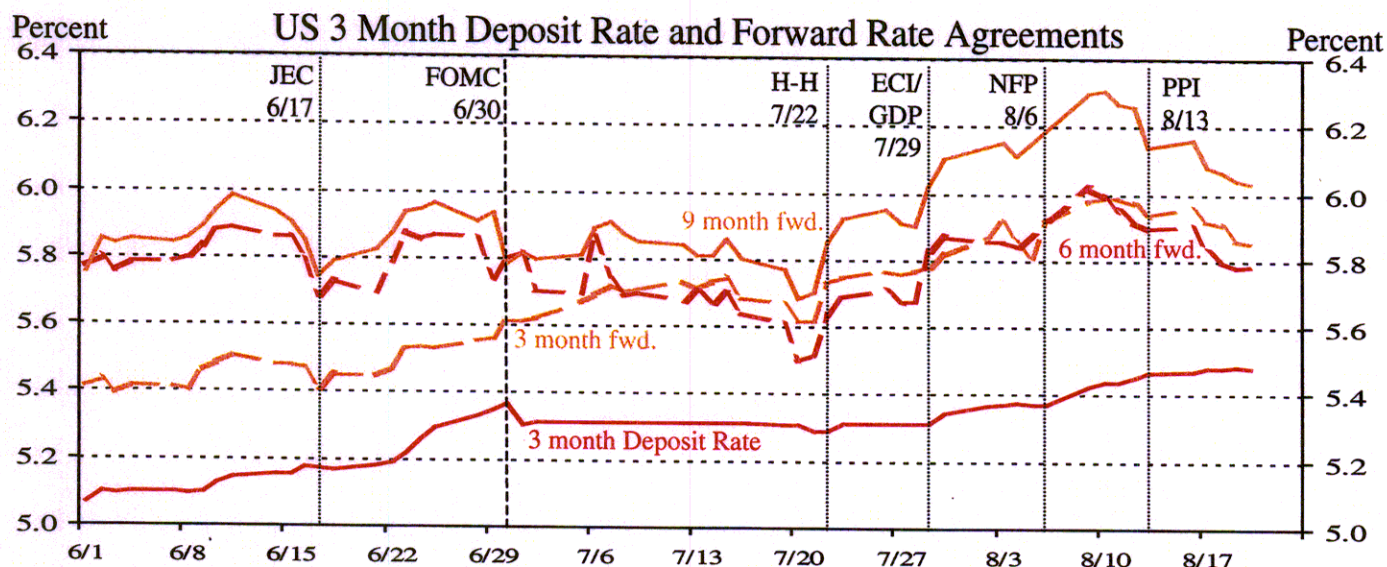
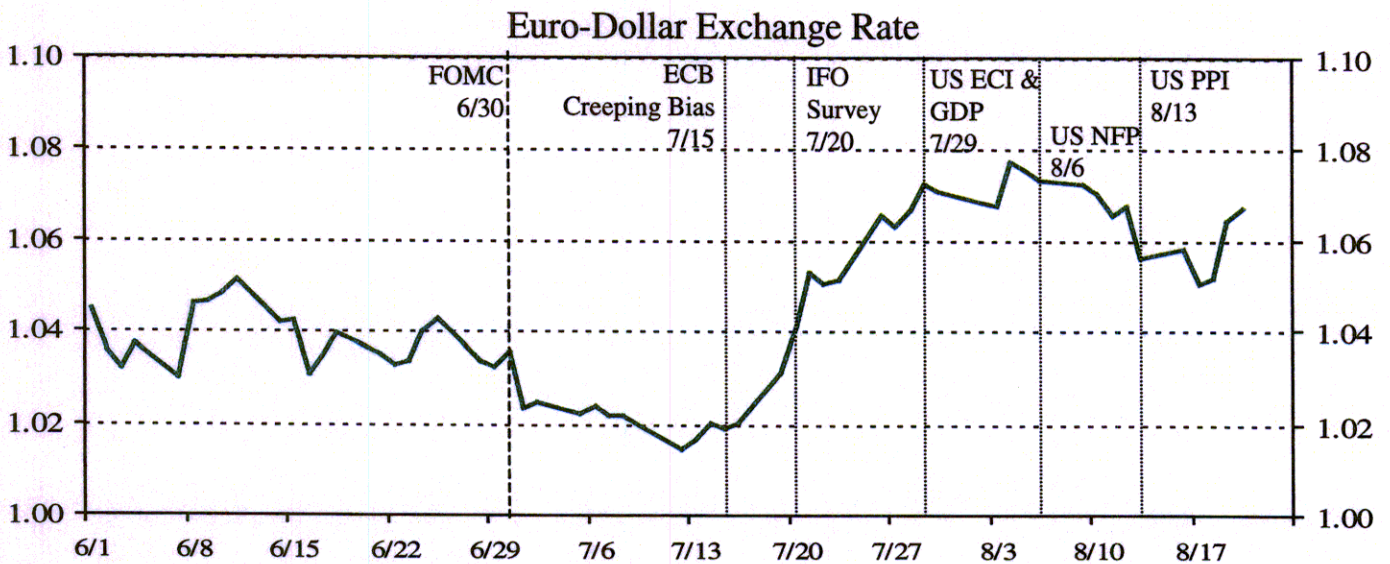
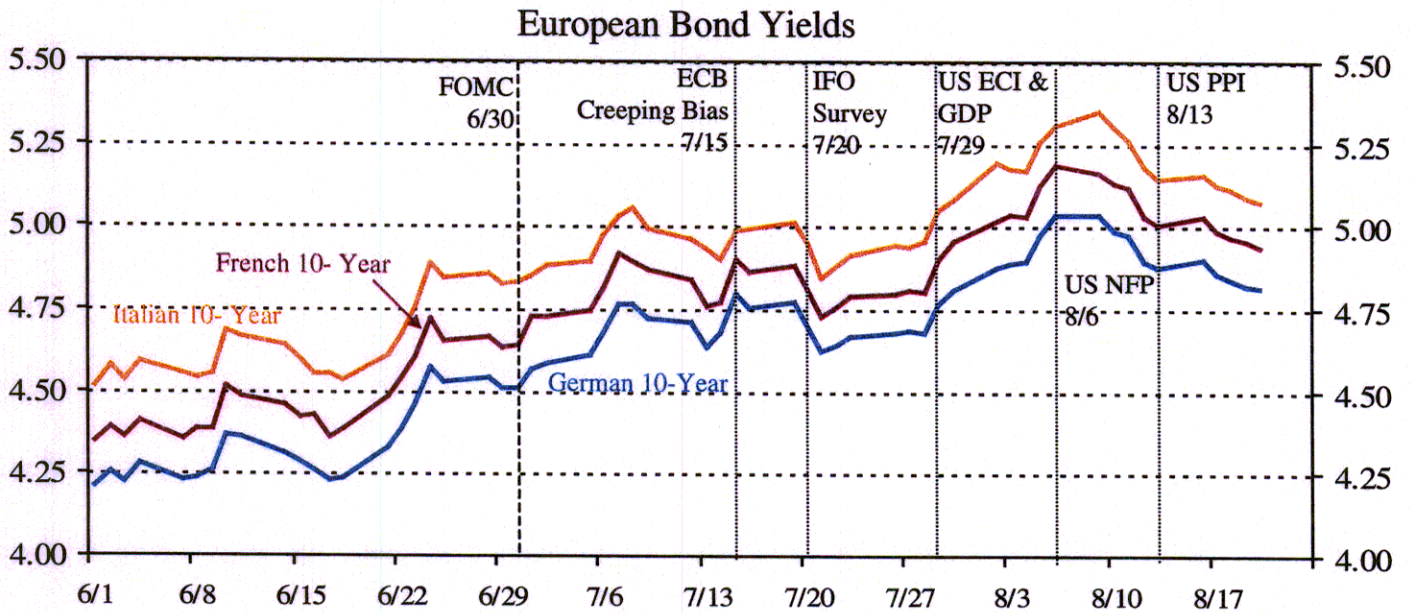
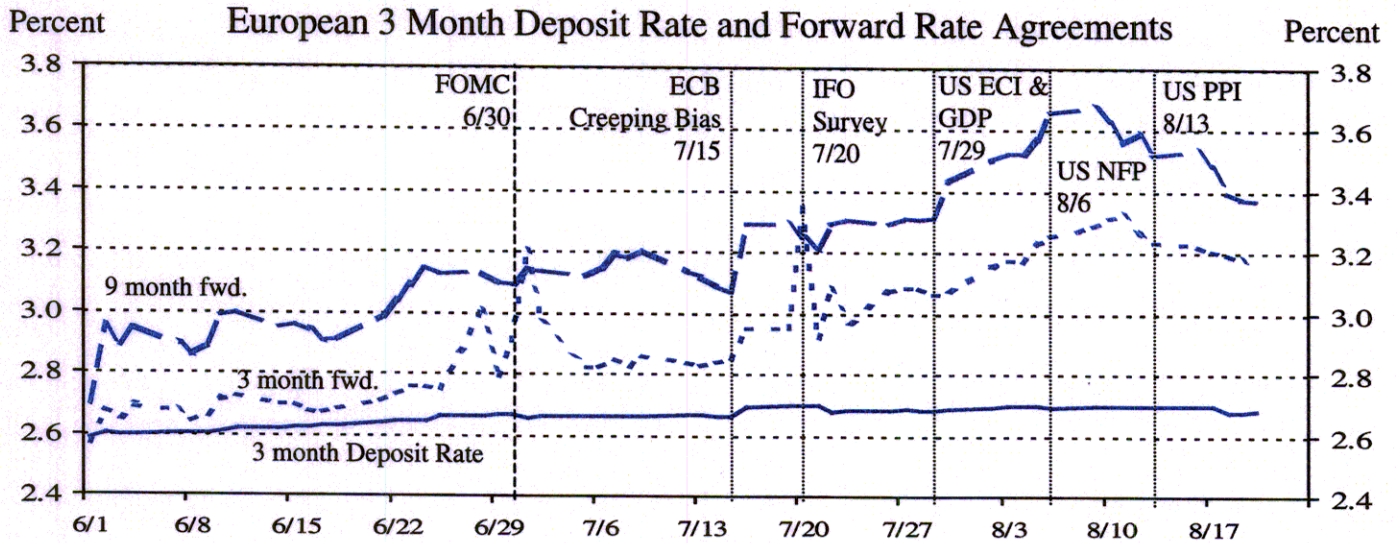


## APPENDIX

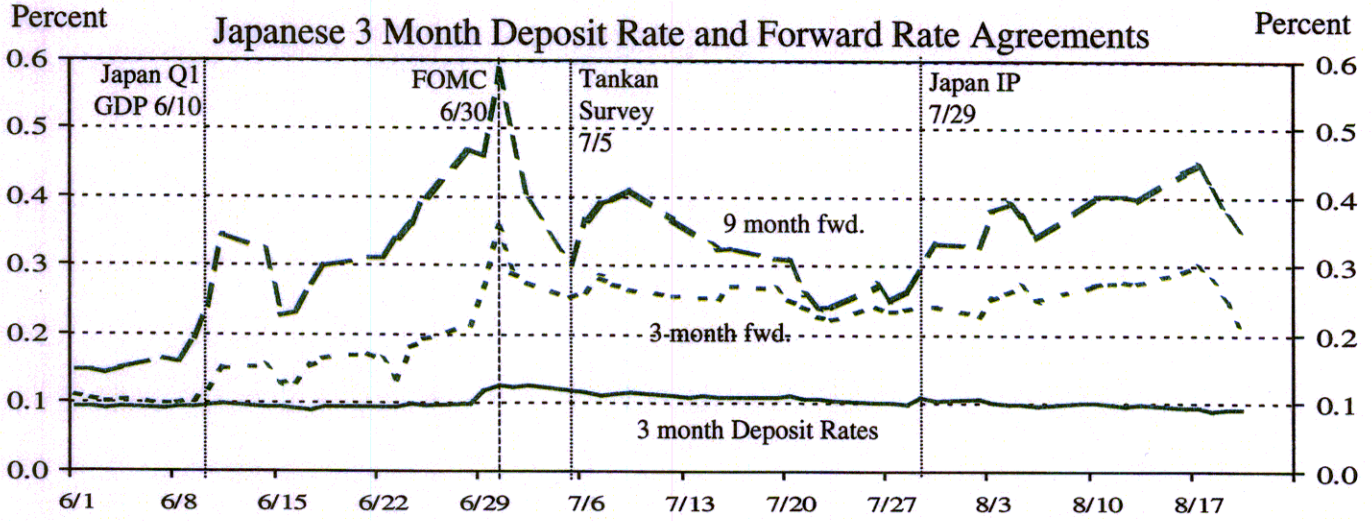
Material used by Mr. Fisher in his presentation

June 1, 1999 - August 20, 1999

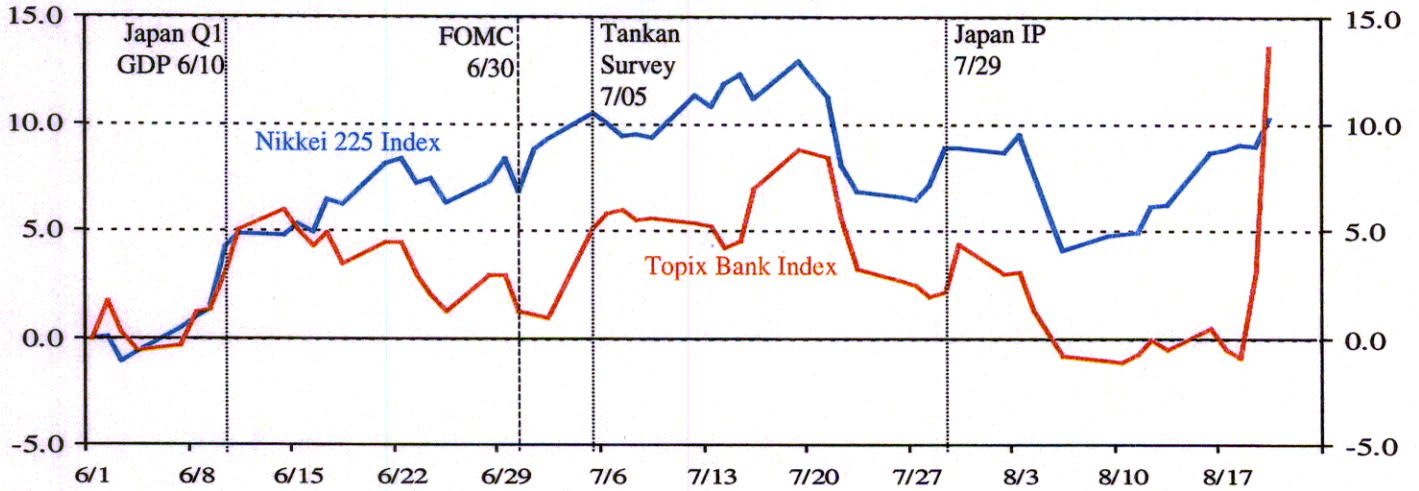




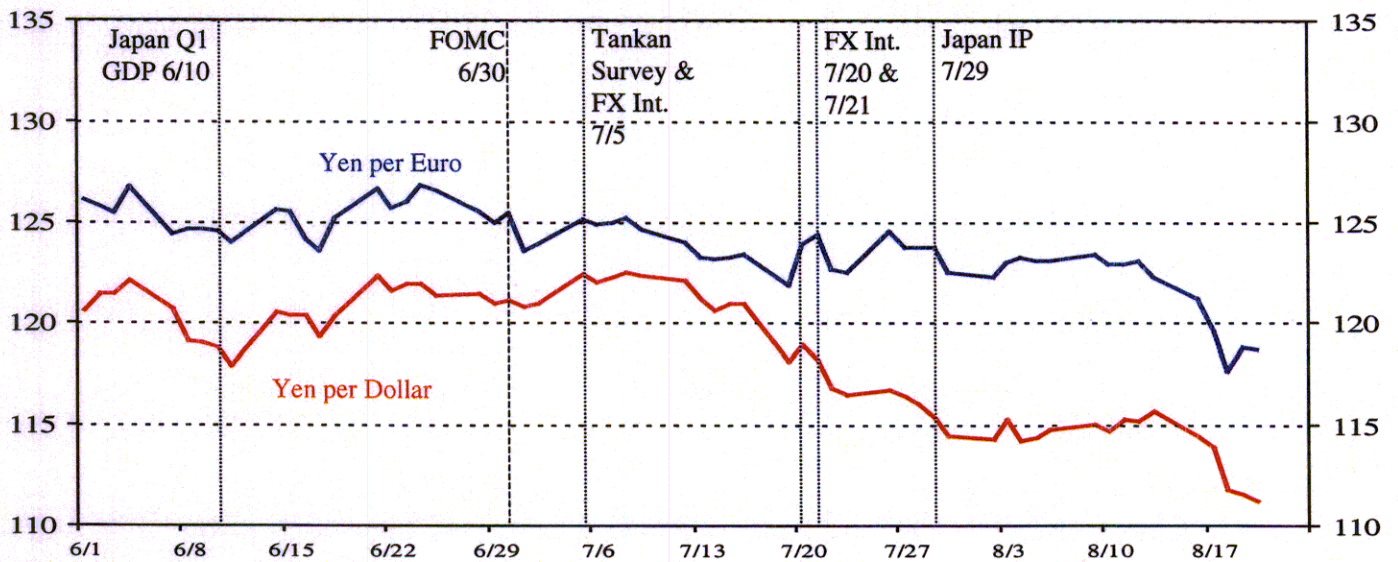




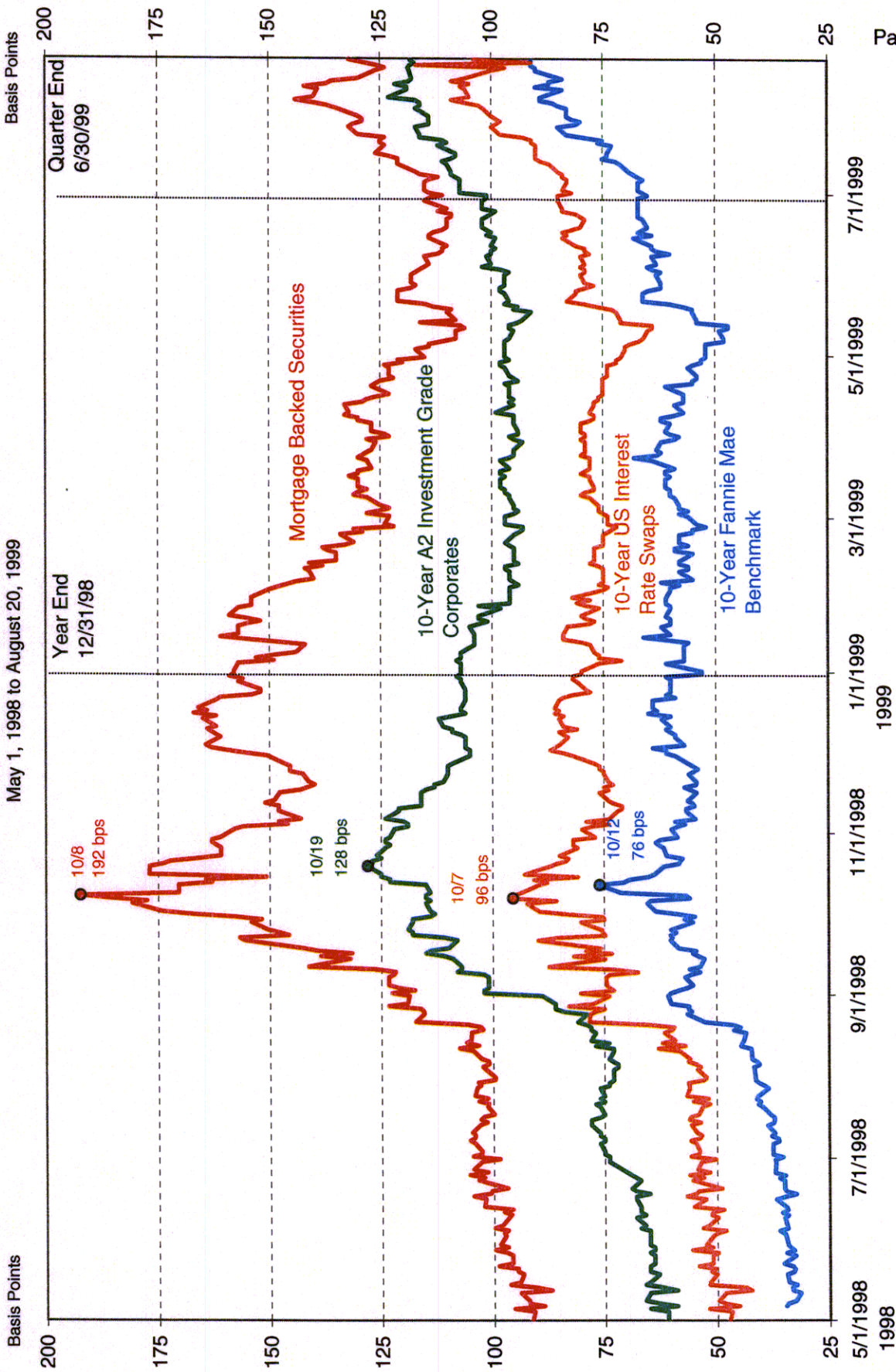
**Percent Changes in Equity Markets  
(Since June 1, 1999)**



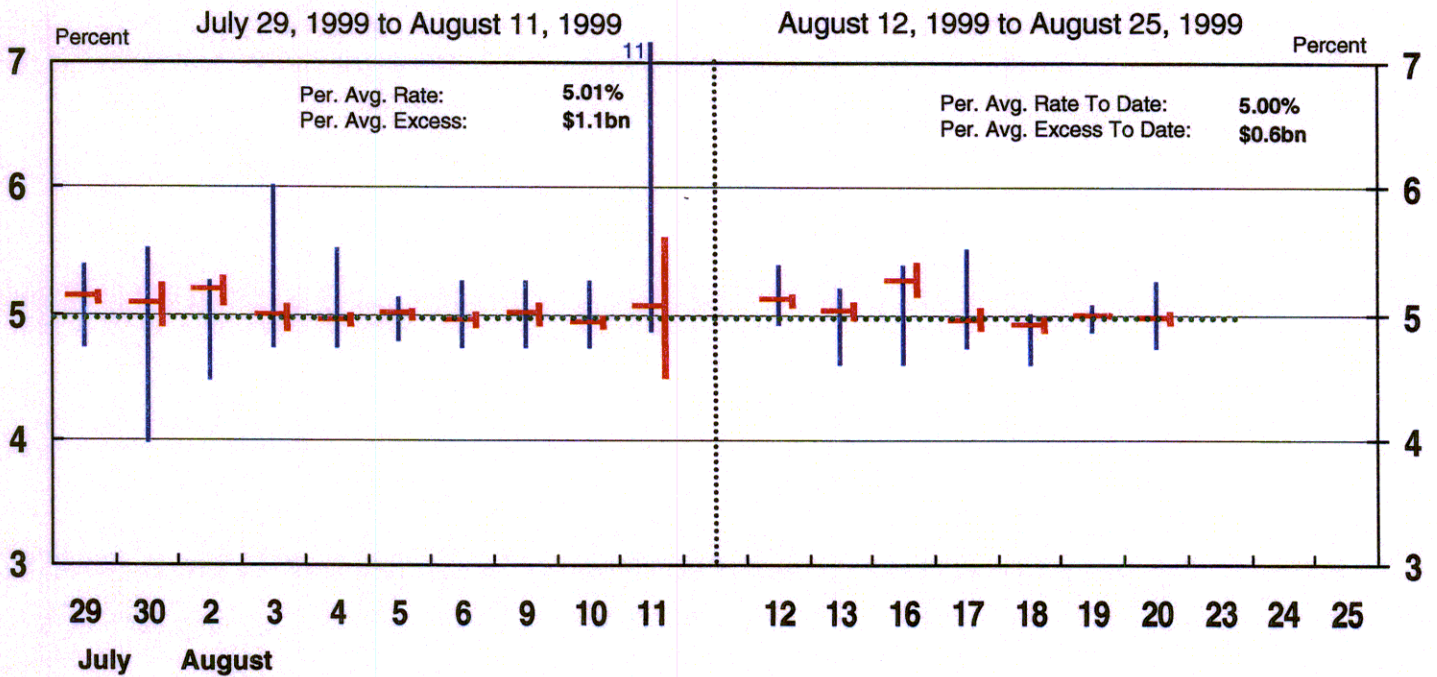
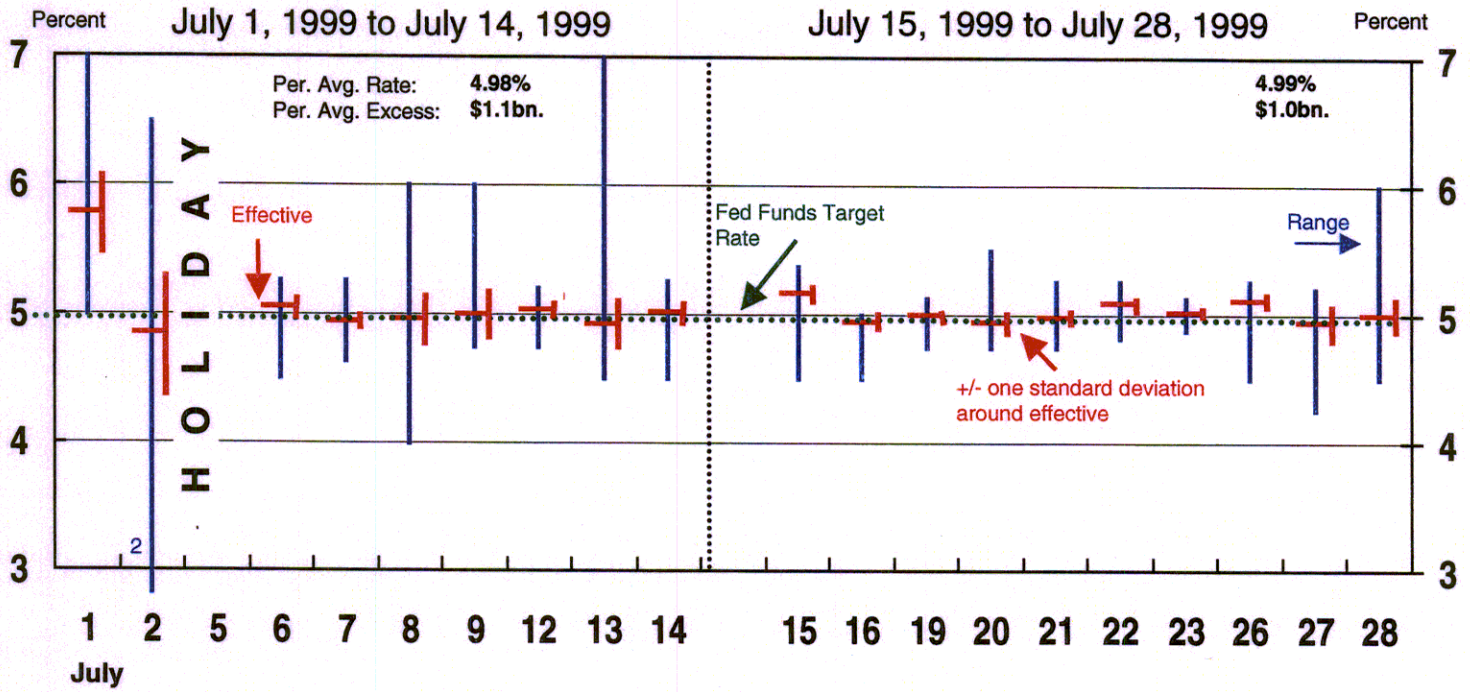
**The Value of One Dollar and One Euro in Yen**



**Basis Points Spread to Comparable US Treasuries**  
 May 1, 1998 to August 20, 1999



# DAILY FEDERAL FUNDS TRADING RANGE, EFFECTIVE RATE & +/-ONE STANDARD DEVIATION





#### **Agenda Item 4: Issues relating to year-end operations**

##### **A. Proposal to rescind 1977 Guideline:**

- Challenge in meeting reserve needs:
  - Elevated and hard-to-predict reserve needs, double prior peak needs are plausible; could be greater
  - Heightened demand for US Treasury securities in flight to quality and liquidity
- Would like to expand pool of collateral available for temporary reserve adding operations to include all federally-sponsored agency securities, including agency pass-through mortgage-backed securities
- Committee vote to rescind should be on the understanding that Desk will continue practice of making no outright purchases of agency securities until doing so is consistent with Committee's views on the maturity and asset structure of SOMA
  - Minutes could reflect this and appropriate role of System open market operations in the agency market
- In conjunction with use of tri-party custodian arrangements, Desk would be able to accept all securities issued or guaranteed by federal-sponsored agencies, as well as Treasury STRIPS.

##### **B. Amendment to Authorization to extend repo maturity to 90 days:**

- 90-day repo term better suits typical year-end reserve needs and is the market standard contract for "term" financing.
- Would be particularly helpful this year end.

C. Amend Authorization to permit reverse repurchase agreements

- Would like to develop contingency for “late-day” operations for year-end markets
- Feasible through use of tri-party arrangements but contingent upon dealer willingness to accommodate our needs;
- Adding operations, through repo, works via tri-party arrangements
- However, in order to execute reserve draining operations through tri-party arrangements would have to use “reverse repo” rather than matched sales
- Had been planning to ask Committee to adopt reverse repo in Authorization as part of plans for next-generation trading systems
- Attachment VIII of Aug 17 memo contains proposed language
  - suggest maximum days maturity be parallel with repo

D. Further discussion of prospects for year-end market strains.

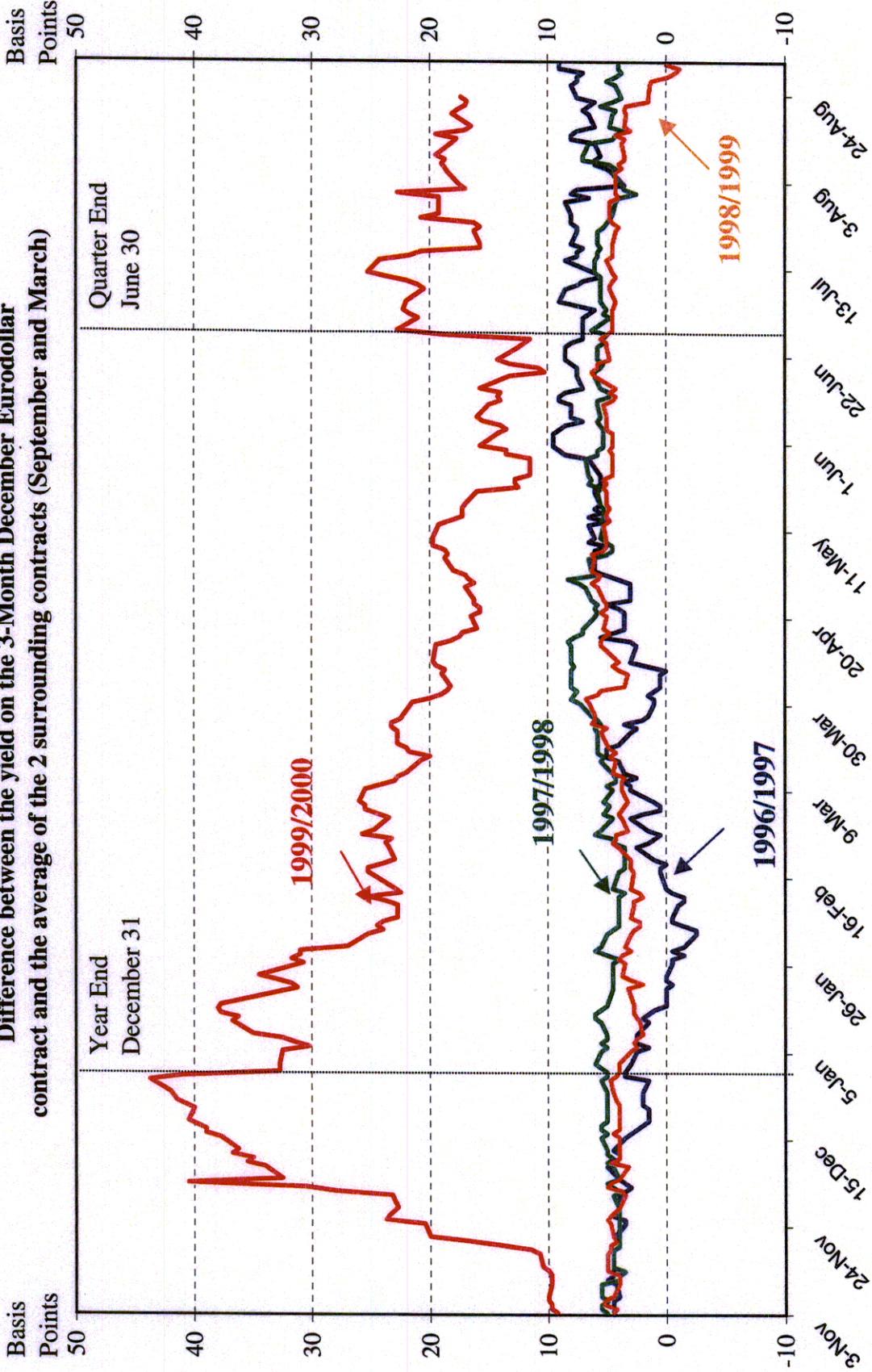
- My preference: temporary authority to auction options on repo and on matched-sale/reverse repo
- Purpose to calm expectations; to reduce risk that year-end and early January markets fail to provide effective intermediation
- Details would need to be worked out in discussions with market participants



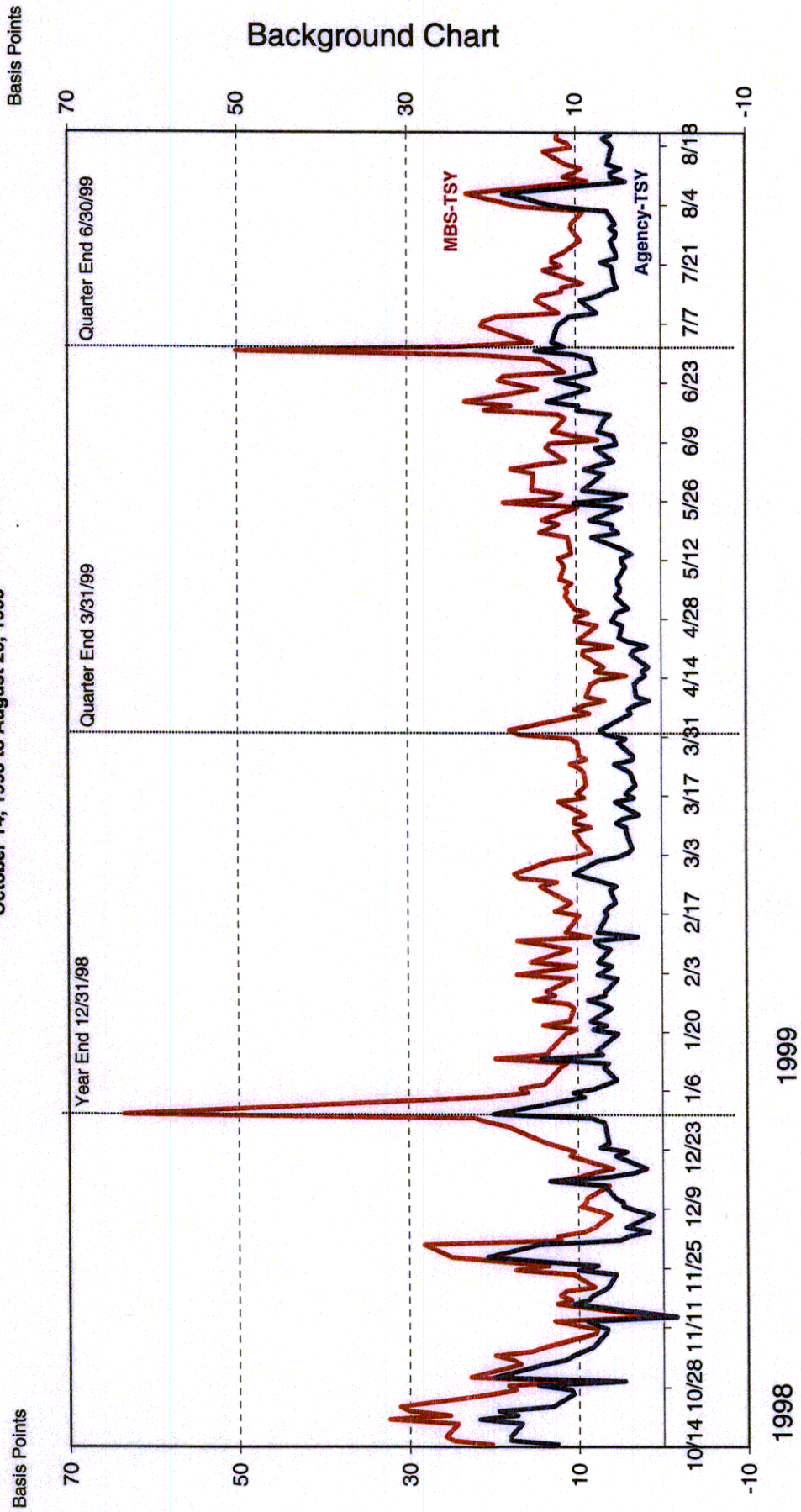
# Background Chart

## Year-End Butterfly Trade 1996 to 1999

Difference between the yield on the 3-Month December Eurodollar contract and the average of the 2 surrounding contracts (September and March)



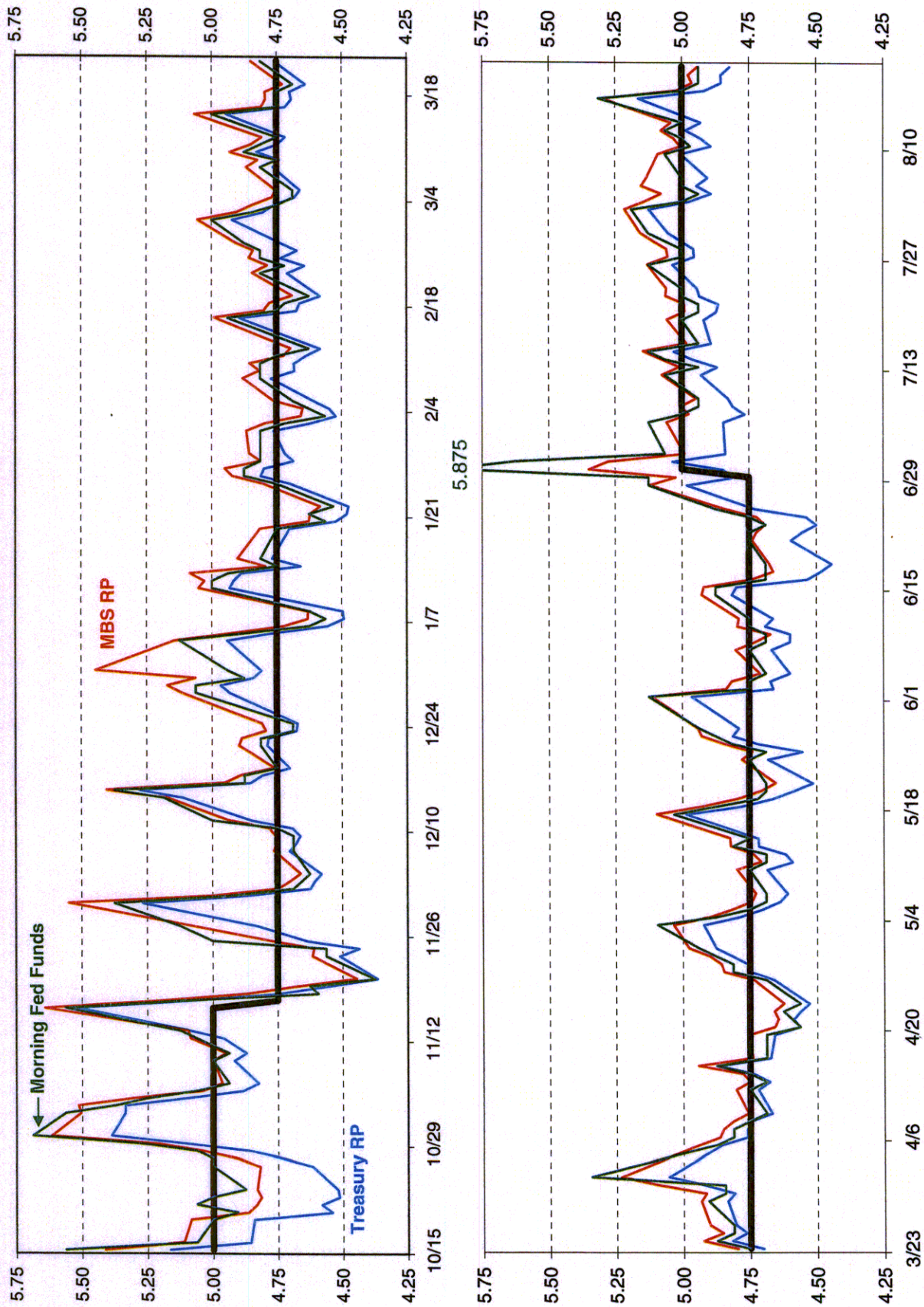
**Overnight Repo Rate Spreads to U.S. Treasury Collateral:  
Agency Debt and Agency Mortgage Backed Securities (MBS)  
October 14, 1998 to August 20, 1999**



Source: Daily survey of the primary dealers, taken shortly before the Open Market Desk's normal intervention time. Agency debt refers to debt issued by agencies such as Fannie Mae, Freddie Mac, and Federal Home Loan Bank. MBS rates reflect agency pass-throughs.



**Morning Levels of Treasury Collateral RPs,  
Agency Mortgage Backed Securities (MBS) RPs and the Morning Fed Funds Rates  
October 15, 1998 to August 20, 1999**



Source: Daily survey of the primary dealers, taken shortly before the Open Market Desk's normal intervention time. MBS rates reflect agency pass-throughs. Fed Funds Rates are taken at 9:30 am.



**FOMC Authorization for Domestic Open Market Operations as of February 1999**

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:
  - (a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices, and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than \$12.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;
  - (b) To buy U.S. Government securities and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities or obligations in 60 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account.
2. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes the Federal Reserve Bank of New York to lend on an overnight basis U.S. Government securities held in the System Open Market Account to dealers at rates that shall be determined by competitive bidding but that in no event shall be less than 1.0 percent per annum of the market value of the securities lent. The Federal Reserve Bank of New York shall apply reasonable limitations on the total amount of a specific issue that may be auctioned and on the amount of securities that each dealer may borrow. The Federal Reserve Bank of New York may reject bids which could facilitate a dealer's ability to control a single issue as determined solely by the Federal Reserve Bank of New York.
3. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1(a) under agreements providing for the resale by such accounts of those securities within 60 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1(b), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.