



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20561

March 12, 1975

CONFIDENTIAL (FR)  
CLASS II - FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida (yrs)

Attached is a copy of a memorandum from the Committee's General Counsel, dated March 12, 1975, and entitled "Review of System Lending of Securities." A related memorandum from the Manager was distributed on March 11, 1975.

It is contemplated that these memoranda will be discussed by the Committee at its meeting on March 18, 1975.

Attachment


CONFIDENTIAL (FR)  
CLASS II - FOMC

TO: Federal Open Market Committee

DATE: March 12, 1975

FROM: Thomas J. O'Connell

SUBJECT: Review of System  
Lending of Securities

 The Manager of the System Open Market Account, by memorandum dated March 7, 1975, has submitted three recommendations for the Committee's consideration. The first relates to a one-year renewal of the authorization contained in paragraph 3 of the Authorization for Domestic Open Market Operations, so as to provide for the continued lending of securities from the System Open Market Account. He has concluded that "the intensive use of this dependable source of borrowed securities has enabled dealers to keep delivery failures at a tolerable level and thus to continue serving market participants, including the accounts handled by the Federal Reserve Trading Desk." The second recommendation concerns an amendment to paragraph 5 of the Terms and Conditions for Lending Securities from System Open Market Account which would increase the daily rate charged dealers on the face amount of such securities. The third recommendation suggests the adoption of procedural changes which would allow securities to be temporarily loaned against "cash" subject to delivery of collateral and return of the cash by the end of the same day.

With respect to the Manager's first recommendation, it is my opinion that the Committee could reasonably find that the

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continued lending of securities from the System Account to dealers and clearing banks is reasonably necessary for the effective conduct of open market operations. Further, the continued lending of System securities, as authorized by the Authorization for Domestic Open Market Operations, is within the "incidental powers" of the Reserve Banks. As to the remaining two recommendations, there do not appear to be legal issues involved as to which an opinion is necessary.