



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

STRICTLY CONFIDENTIAL (FR)  
CLASS II - FOMC

TO: Federal Open Market

DATE: October 26, 1987

FROM: Normand Bernard *N.B.*

On October 22, 1987, all available members of the Committee concurred in a recommendation from the Manager for Domestic Operations regarding System loans of Treasury securities to dealers. The following message was transmitted to FOMC members:

"In view of current market scarcities of certain Treasury issues, the Manager of the System Open Market Account recommends that the Committee temporarily broaden the terms and conditions for the lending of securities from the System Open Market Account. Such action would assure flexibility in assisting dealers to meet market commitments, even those that possibly may relate to the short sale of securities. The Manager recommends that the Committee suspend, temporarily, the size limits imposed on lending operations and the requirement that loans of securities not be related to short sales. Securities loans will continue to be collateralized by securities of greater value. We will advise the Committee when market circumstances no longer appear to require this added flexibility. Chairman Greenspan concurs in this recommendation."

FOMC  
Carol R. Low

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Secretary's note: The concurrence of the Committee members with the Manager's recommendation did not involve a change in paragraph 2 of the "Authorization for Domestic Open Market Operations." The latter gives Reserve Banks the authority to lend securities held in System Account under "such instructions as the Committee may specify from time to time." Those instructions are not published although they are part of Committee records that are available to the public.

Unless a Committee decision results in a change in a Committee Authorization or Directive, it is not considered a formal Committee action and therefore does not need to be reported in the policy record or minutes. The Secretariat does plan, however, to refer to this matter in the general background paragraphs of the next policy record. Information about the change was of course communicated to the dealers by the Desk and an article in Friday's New York Times made reference to it.