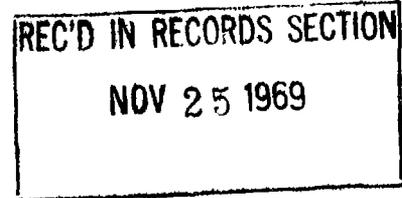




BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551



November 24, 1969

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Broida

Attached for your information is a copy of a letter dated November 21, 1969, from Secretary Kennedy to Chairman Martin relating to System lending of Government securities.

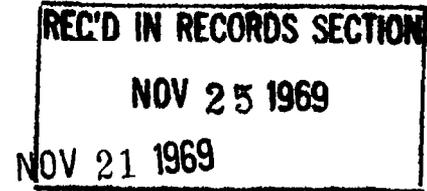
A handwritten signature in cursive script that reads "Arthur L. Broida".

Arthur L. Broida,  
Deputy Secretary,  
Federal Open Market Committee.

Attachment



THE SECRETARY OF THE TREASURY  
WASHINGTON



Dear Bill:

The Treasury Department fully supports the objectives of the Federal Reserve System in its plan to lend United States Government securities held in the System Open Market Account for the limited purpose of minimizing the number and dollar volume of failures to make deliveries and to facilitate security clearance arrangements. I would like to commend the Federal Open Market Committee for its initiative in this connection.

Reports of growing delivery problems in the market for Government securities have concerned me greatly, as have the implications of these developments for the efficient functioning of the market, upon which both the Federal Reserve and the Treasury must rely. Therefore, it is clearly urgent that every possible effort be put forward to maintain the smooth functioning of the market. I have requested that Treasury officials join with the Federal Reserve and market representatives in a joint effort to develop new approaches and solutions to the various problems that have caused this deterioration in the market mechanism. Clearly, further progress toward the book-entry system is an important element in this effort.

On the present proposal for lending securities, the Treasury recognizes fully the special purposes for the Federal Open Market Committee's action and the legal framework upon which the action was based. The Treasury would like to be as helpful as possible in this area and, as you know, we have explored the possibility of joining directly in lending with you. At this point there remain difficult problems, but we are continuing our study of the question.

With best wishes,

Sincerely,

A handwritten signature in cursive script, appearing to read "David".

The Honorable  
William McC. Martin, Jr.  
Chairman, Federal Open Market Committee  
Washington, D. C.