

**MEMO# 11231**

September 10, 1999

## **FEDERAL RESERVE BANK OF NEW YORK ANNOUNCES MEASURES TO INCREASE LIQUIDITY AT YEAR-END**

[11231] September 10, 1999 TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 11-99  
SEC RULES COMMITTEE No. 66-99 RE: FEDERAL RESERVE BANK OF NEW YORK ANNOUNCES  
MEASURES TO INCREASE LIQUIDITY AT YEAR-END

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The Federal Reserve Bank of New York (FRBNY) recently announced a number of temporary and permanent measures voted by the Federal Open Market Committee (FOMC) at its August 24th meeting to ensure that the FRBNY will be able to manage banking systems reserves during the period around the century date change. As approved by the FOMC, these measures (1) expand the collateral accepted in repurchase transactions, (2) extend the maximum term of the FRBNY's repurchase transactions to 90 days, and (3) introduce a Standby Financing Facility. The FRBNY's release announcing these measures is attached. Specifically, the FOMC approved, on a temporary basis through April 2000, an expansion of the securities eligible as collateral in the repurchase transactions undertaken by the FRBNY in the management of banking system reserves. The principal effect of this expansion will be the inclusion of pass-through mortgage securities of GNMA, FHLMC and FNMA, STRIP securities of the U.S. Treasury and "stripped" securities of other government agencies. The FRBNY will also establish custody arrangements with commercial banks to manage the clearing and settlement of collateral on a "tri-party" basis. These arrangements are expected to be in place in early October, to permit the introduction of the broader pool of collateral at that time. The FOMC also authorized the FRBNY to enter into repurchase transactions with maturities of up to 90 days - an increase from the present 60-day time period. This is a permanent change. Finally, the FOMC authorized the FRBNY to provide a temporary Standby Financing Facility (SFF) through the auction of options on temporary transactions. This facility will be available through January 2000. Under this authority, the FRBNY would sell options on overnight repurchase agreement transactions for exercise on specific days in December 1999 and January 2000. The FRBNY prepared the attached discussion draft of the proposed terms of the facility and invites comment on it. It anticipates completing final terms of the SFF by the end of the month. Barry E. Simmons  
Assistant Counsel Attachments