

T E L E G R A M

FEDERAL RESERVE COMMUNICATIONS SYSTEM

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON**

May 19, 1982

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

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In order to assist in the efficient functioning of System Open Market Operations in the Government securities market because of the current Drysdale situation, 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, in view of current uncertainties that might limit the availability of securities from normal lenders. The Manager recommends that the Committee suspend temporarily, through May 28, the size limits imposed on lending operations and the requirement that loans of securities not be related to short sales. The Desk would lend against an actual short sale only in the most needful circumstances. Chairman Volcker concurs in this recommendation.

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Please advise promptly whether you concur in the Manager's recommendation.

For your information, the Chairman may schedule a conference call tomorrow to review the general situation in relation to the Drysdale problem.

ALTMANN

M.A.