

OPERATING POLICY

## **Statement Regarding System Open Market Account Activity**

March 7, 2008

The Federal Reserve has announced that the Open Market Trading Desk will conduct a series of term repurchase (RP) transactions that are expected to cumulate to \$100 billion outstanding. This initiative is intended to address heightened pressures in term funding markets. These transactions will be conducted as 28-day term RP agreements in which primary dealers may elect to deliver as collateral any of the types of securities—Treasury, agency debt, or agency mortgage-backed securities—that are eligible as collateral in its conventional RP operations.

When the Desk arranges its conventional RPs, it accepts propositions from dealers in three collateral “tranches.” In the first tranche, dealers may pledge only Treasury securities. In the second tranche, dealers have the option to pledge federal agency debt in addition to Treasury securities. In the third tranche, dealers have the option to pledge mortgage-backed securities issued or fully guaranteed by federal agencies in addition to federal agency debt or Treasury securities. With the special “single-tranche” RPs announced today, dealers have the option to pledge either mortgage-backed securities issued or fully guaranteed by federal agencies, federal agency debt, or Treasury securities. The Desk has arranged single-tranche transactions from time to time in the past.

These special term transactions will be arranged weekly. The first operation will be for \$15 billion in funds, and it will be conducted on Friday, March 7, and will settle on Monday, March 10. Going forward, specific auction details may be adjusted based on experience and market conditions.

With this series of term RP transactions and the expansion of the Term Auction Facility that was also announced by the Federal Reserve, other adjustments will be made by the Open Market Trading Desk in order to maintain a level of reserves consistent with trading at rates around the operating objective for the overnight federal funds rate. These adjustments may include Treasury bill redemptions, reverse repurchase agreements, Treasury bill sales, and changes in the sizes of conventional RP transactions.

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