A telephone conference meeting of the Federal Open Market Committee was held on Thursday, June 21, 1962, at 3;30 p.m. EDST.

PARTICIPATING:	Mr. Martin, Chairman	(Washington)
	Mr. Hayes, Vice Chairman	(New York)
	Mr. Balderston	(Washington)
	Mr. Bryan	(Atlanta)
	Mr. Deming	(Minneapolis)
	Mr. Ellis	(Boston)
	Mr. Fulton	(Cleveland)
	Mr. King	(Washington)
	Mr. Mills	(")
	Mr. Robertson	(")
	Mr. Shepardson	(")

Mr. Sherman, Assistant Secretary	(Washington)
Mr. Kenyon, Assistant Secretary	(")
Mr. Hackley, General Counsel	(")
Mr. Furth, Associate Economist	(")
Mr. Coombs, Special Manager System Open Market Account	(New York)
Mr. Molony, Assistant to the Board of Governors	(Washington)

At the meeting of the Federal Open Market Committee on June 19, 1962, Mr. Coombs had reported on discussions with respect to a possible U.S. dollar-Canadian dollar swap arrangement between the Federal Reserve System and the Bank of Canada but had recommended that the matter be held temporarily in abeyance. This telephone conference meeting was called for the purpose of considering such a swap arrangement further in the light of recent developments.

At the request of the Chairman, Mr. Coombs made a statement in which he reported that there had been a number of telephone discussions yesterday and today between the Governor of the Bank of Canada, on the one side, and representatives of the Federal Reserve, the International Monetary Fund, the U.S. Treasury, and the Bank of England on the other.

The Canadian dollar had been under heavy selling pressure, and the situation appeared to call for both (a) development by the Canadian Government of a program of corrective measures, and (b) international financial aid. As to the first point, it was hoped that by Sunday, June 24, the Canadian Government would be prepared to announce a comprehensive program of remedial steps, including actions in the fiscal field and in the monetary and credit area. As to international aid, there was in prospect a financial assistance package of substantial proportions that might be announced by the Canadians simultaneously. Discussions had been going on with the International Monetary Fund relating to the possibility of a Canadian drawing as one part of this package. Although the amount that would be immediately available had not yet been ascertained, in part because of the necessity for Fund representatives to get in touch with their respective governments, a minimum drawing of $160 million seemed assured and it was hoped that as much as $300 million would be available promptly. As another part of the package of financial aid, the Bank of England had committed itself to the extent of $100 million. In addition, the U.S. Export-Import Bank probably would be prepared to put up $350 or $400 million on a standby basis.

Turning to the role of the Federal Reserve, Mr. Coombs said that he would recommend a swap arrangement in the amount of $250 million, such arrangement to be on generally the same terms as the other swap arrangements heretofore entered into by the System, with provision for forward cover and with an identical interest rate, probably 2 per cent, on both sides. The swap would be for a three-month period, with option of renewal at the agreement of both parties.

In further comments, Mr. Coombs noted that it was possible that some additional funds might be obtained by the Canadians from Continental European central banks. However, if the other items in the financial package that he had described were firmed up, that would appear sufficient. Such a package would approximate $1 billion. In combination with the announcement of a program of corrective fiscal and other measures such as the Canadians were trying to work out, this should suffice to restore confidence in the Canadian dollar, with substantial indirect benefits to the United States.

With respect to the anticipated Export-Import Bank standby credit, Mr. Coombs said it was understood that the Canadians would seek to negotiate a long-term loan in the order of $250 million from New York banks and insurance companies. If that could be accomplished, an equivalent amount of the standby credit would be eliminated.

Chairman Martin inquired, for purpose of clarification, concerning the position of the Federal Reserve if it should enter into the recommended swap arrangement and there should be a breakthrough of the Canadian dollar.

Mr. Coombs replied that the Federal Reserve would still be entitled to repayment of 250 million U.S. dollars. There would be no possibility of loss except in the event of default on the part of the Bank of Canada, which would be unthinkable.

Mr. Mills asked whether it was anticipated that Canadian drawings under the package of financial assistance would be largely in U.S. dollars.

In reply, Mr. Coombs said he assumed that any drawings on the Monetary Fund would be largely in European currencies. Although the technical details of the arrangement with the Bank of England apparently had not yet been ironed out, he supposed that the Bank of England might switch dollar holdings in New York to the Bank of Canada.

Mr. Robertson inquired as to why the International Monetary Fund was not in a position to go further than $160 million at this time.

Mr. Coombs replied that the Fund customarily followed certain procedures, under which the executive directors had an opportunity to communicate with their respective governments. However, the Fund was in a position to act more promptly on a drawing limited to the amount of gold that the applicant country had paid in to the Fund. In any event, if the Fund could not go to a figure as high as $300 million in time to permit announcement on Sunday, it was hoped that additional funds might become available during the following week.

Mr. Robertson then inquired of Mr. Coombs whether his recommendation was contingent upon the swap arrangement being a part of a larger package of financial assistance from several sources, such as Mr. Coombs had outlined.

Mr. Coombs replied that he would not recommend a swap arrangement except as part of a larger package of international financial aid, and unless the Canadian Government was able to put together a program of corrective measures.

Mr. Shepardson asked about the prospect of such a program being formulated in view of the indecisive nature of the recent Canadian elections, to which Mr. Coombs replied that the Governor of the Bank of Canada had seemed hopeful that it would be possible to put the program together and announce it on Sunday.

After Mr. King indicated that he had no questions, inquiry was made by Mr. Balderston with regard to the manner of announcement of any Federal Reserve-Bank of Canada swap arrangement.

Mr. Coombs said he assumed that the announcement by the Canadian Government of the package of financial assistance would include a breakdown of the several sources of funds. If such an announcement was made on Sunday, that would present something of a problem should the Open Market Committee desire that separate announcement of the swap arrangement be made simultaneously. Perhaps, however, someone representing the Committee could be on duty to confirm the swap arrangement in the event of inquiry.

Mr. Hayes commented that he had been in close consultation with Mr. Coombs and with Treasury representatives. He had also talked with the Governor of the Bank of Canada today. While he (Mr. Hayes) had nothing to add to the facts of the matter, as stated by Mr. Coombs, he would like to stress the urgency of the situation not only from the Canadian point of view but from the standpoint of the United States. The Federal Reserve System had an opportunity to contribute to a solution, in a manner that would involve a minimum of risk to the System, and he considered it highly appropriate that the System have a part in the program.

In response to a question, Mr. Hayes said he would regard the swap arrangement as one for the purpose of helping the United States as well as Canada. He felt that a worsening of the Canadian position could have serious repercussions on the U.S. dollar.

Mr. Ellis inquired as to which of the sources of funds the Canadians would be likely to draw on first, and as to the prospective order of repayment.

Mr. Coombs replied, on the first point, that he assumed the Canadians might draw first on funds made available by the Federal Reserve and by the Bank of England. As to repayment, he assumed that the Federal Reserve money would be repaid before the Canadians made repayment of funds borrowed from sources such as the International Monetary Fund or the Export-Import Bank. The swap arrangement would be renewable, of course, but only upon agreement by the Federal Reserve. If the drawing from the Monetary Fund developed ultimately to be as large as seemed possible, those funds could be used in part, if necessary, to repay the Federal Reserve. This would be similar to the situation in 1961 when the British borrowed short term from other European central banks and then made repayment out of the proceeds of a drawing on the Monetary Fund.

Mr. Fulton referred to the package Mr. Coombs had described and asked for clarification from the standpoint of the effect on the U.S. balance of payments.

In reply, Mr. Coombs pointed out that the swap arrangement would have no balance of payments effect, since the Canadian dollars accruing to the Federal Reserve would be included as a short-term claim on foreigners. If the Bank of England transferred holdings of U.S. dollars to Canada, that would represent merely a shift of liabilities. However if the Canadians should draw on Export-Import Bank money or borrow in New York City, that would have a balance of payments effect, except to the extent that the proceeds of any borrowing in New York City were used to fund short-term borrowing in the United States.

Mr. Bryan commented that if anything were done, the package of assistance must be large enough to have a chance of succeeding. He then inquired whether the problem appeared to involve clearly a speculative run on the Canadian dollar or whether it appeared that the parity of the Canadian dollar might not be in actuality a viable parity.

Mr. Coombs replied that he believed it was a viable parity. He went on to say that with the decline in the rate of the Canadian dollar over the past few months, a significant improvement in the Canadian export position had already been seen. There was every indication from the market that a speculative raid of large proportions had been occurring. Only such a raid could result in reserve losses of the magnitude of those currently being incurred.

Mr. Deming asked Mr. Coombs whether he saw any possibility of the swap becoming in effect a long-term loan.

Mr. Coombs answered in the negative, adding that it had been his position that the swap involved short-term money. Further, as he had mentioned previously, since the Canadians might ultimately be able to borrow as much as $600 million from the Monetary Fund, that would provide a take-out for the Federal Reserve even on the worst possible assumptions.

In reply to a question from Chairman Martin Mr. Coombs confirmed that Canadian reserves were still in excess of $1 billion.

In further discussion, Mr. Mills inquired whether, if the United States and Britain put up U.S. dollars and Canada paid out such dollars against a loss of reserves, there was not the risk that the recipients would wish to convert the dollars into their own currencies or gold.

Mr. Coombs said that this problem had been discussed with the Bank of England. Both the Bank of England and the Federal Reserve Bank of New York felt that the major flow from Canada was to the United States rather than to the United Kingdom or to Europe. Therefore, the risk of leakage into Europe was not thought to be great. To cover this contingency, however, the Bank of England had been asked to observe a certain amount of flexibility in terms of its dollar holdings for at least two weeks, until the picture became clearer. The Reserve Bank would be in daily communication with the Bank of England on the matter.

Mr. Hayes stated at this point that he had just received word from the Treasury that the Monetary Fund was willing to go ahead with a $300 million loan to Canada if the Fund received promptly from the Canadian Government the make-up of a Canadian program of fiscal and other corrective measures that the Fund could wire tonight to its constituent governments. Otherwise, the Fund would agree to a loan of $160 million at this time, with the prospect of an additional amount later. If $300 million was provided by the Fund, presumably no further consideration would have to be given to the possibility of participation by Continental European central banks in the package of assistance to Canada; if only $160 million was provided, that question might have to be reopened.

Mr. Deming inquired whether a Fund drawing was likely to be largely in Continental European currencies, and Mr. Coombs replied in the affirmative. Mr. Deming then inquired how that would help the Canadians if the flow of funds was principally to the United States. Mr. Coombs replied that there would, of course, be a certain volume of regular Canadian payments to the European countries. Otherwise, the Canadians presumably would hold the European currencies simply to have them within the Canadian reserve picture and, as necessary, to convert into U.S. dollars. Technically, it would be simpler if a Fund drawing were in U.S. dollars, but that would affect other facets of general Fund policy.

There being no further questions, Chairman Martin called for a vote on whether to authorize a $250 million swap arrangement with the Bank of Canada pursuant to terms such as the Special Manager had described earlier during this meeting, and subject to the understanding that the swap arrangement would not be entered into except as part of a larger package of financial assistance to Canada from several sources, including the International Monetary Fund.

> Upon motion duly made and seconded, such authorization was given by unanimous vote.

In view of the foregoing action, the continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations was amended, effective immediately, to add the Canadian dollar to the list of foreign currencies that the Federal Reserve Bank of New York was authorized and directed to purchase and sell. In its amended form, the directive read as follows:

> The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962:
>
> Pounds sterling
> French francs

German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars

Total foreign currencies held at any one time shall not exceed $500 million.

The meeting then adjourned.

Assistant Secretary