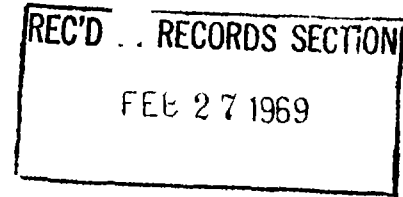




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551



February 27, 1969

CONFIDENTIAL (FR)

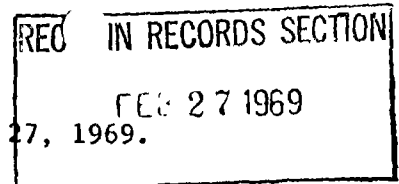
TO: Federal Open Market Committee
FROM: Mr. Holland

Enclosed is a memorandum from the Secretariat dated today and entitled "Proposed technical amendments to authorization for System foreign currency operations." It is contemplated that this memorandum will be considered by the Committee at its meeting on March 4, 1969, under agenda item 9.

A handwritten signature in cursive script, appearing to read "Robert C. Holland".

Robert C. Holland, Secretary,
Federal Open Market Committee.

Enclosure



CONFIDENTIAL (FR)

To: Federal Open Market Committee Subject: Proposed technical amend-
From: The Secretariat ments to authorization for System
foreign currency operations.

The purpose of this memorandum is to recommend several amendments to the authorization for System foreign currency operations, all of which are intended to be clarifying and not to affect substance. Both the Special Manager and the Committee's General Counsel concur in the proposed changes, which are described below.

1. The following amendment is recommended in paragraph 1:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive AND EXPRESS AUTHORIZATIONS BY THE COMMITTEE PURSUANT THERETO:

This amendment was recommended by Mr. Hackley in his memorandum to the Committee of January 31, 1969, entitled "Legal aspects of proposals for assisting Treasury in connection with cash and debt ceiling problems." As Mr. Hackley noted, paragraphs 2 and 4 of the foreign currency directive (relating, respectively, to foreign currency operations in general and to forward transactions) provide for operations to be undertaken under express authorities granted by the Committee in addition to operations undertaken for the specific purposes listed in those paragraphs. While the amendment was recommended in connection with Committee consideration of a particular express authority, Mr. Hackley noted that it would be more generally desirable, in order to make clear that the language of the authorization extended to operations under all express authorities given by the Committee as well as to those under the specific language of the directive.

-2-

2. The following related amendments, affecting B and C(1) of paragraph 1, are recommended:

B. To hold foreign currencies listed in paragraph A above, up to the following limits:

(1) CURRENCIES PURCHASED SPOT, INCLUDING CURRENCIES PURCHASED FROM THE STABILIZATION FUND, AND SOLD FORWARD TO THE STABILIZATION FUND, UP TO \$1 BILLION EQUIVALENT;

~~(1)~~ (2) Currencies held-spot-or purchased SPOT OR forward, up to the amounts necessary to fulfill OTHER outstanding forward commitments;

~~(2)~~ (3) Additional currencies held-spot-or purchased SPOT OR forward, up to the amount necessary for System operations to exert a market influence but not exceeding \$150 million equivalent; and

~~(3)~~ (4) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to \$300 million equivalent.

C. To have outstanding forward commitments undertaken under paragraph A above to deliver foreign currencies, up to the following limits:

(1) Commitments to deliver foreign currencies to the Stabilization Fund, up to ~~\$1-billion-equivalent~~ THE LIMIT SPECIFIED IN PARAGRAPH 1B(1) ABOVE;

By way of the explanation, we might note that the original purpose of paragraph 1C(1) had been to permit the System to warehouse foreign currencies for the Treasury in order to facilitate repayment by the Treasury of maturing bonded debt denominated in foreign currencies. In November 1967, however, the paragraph was amended to permit System warehousing of some of the sterling acquired by the Stabilization Fund under the credit package negotiated then, in order to assist the Stabilization Fund if its resources proved inadequate to meet all demands

-3-

upon them from time to time in the future. (The amendments consisted of an increase in the limit from the previous level of \$200 million to \$350 million equivalent, and of deletion of language restricting the foreign currencies covered by the paragraph to currencies "in which the U.S. Treasury has outstanding indebtedness.") The paragraph was again amended effective September 24, 1968, at the time agreement was reached on the new sterling balances arrangement, to increase the limit to the present level of \$1 billion.

Although warehousing operations, of course, involve both spot and forward transactions, use of paragraph 1C(1) relating to forward transactions is technically adequate to authorize warehousing operations because under the language of the existing paragraph 1B(1) the System Account is permitted to hold currencies "up to the amounts necessary to fulfill outstanding forward commitments." In the judgment of the staff, however, this form of authorization is lacking in clarity. The new 1B(1) is proposed to clarify the Committee's intent by covering the spot transactions involved in warehousing operations in a separate paragraph.

The revisions recommended in the existing paragraphs 1B(1) and 1B(2) [renumbered as 1B(2) and 1B(3)] are largely self-explanatory. The substitution of "purchased" spot for "held" spot in both paragraphs is suggested because it would seem to be the more precise term. In (the new) 1B(2), addition of the word "other" before "forward commitments" is proposed for consistency with the separate treatment of transactions with the Stabilization Fund in (the new) 1B(1); and the deletion of the word "outstanding" is suggested because it appears superfluous.

-4-

The revision recommended in paragraph 1C(1) is mainly to avoid the need for amending the authorization at two points at any time the Committee decides to change the authorized limit on warehousing operations for the Stabilization Fund. This revision also would have the incidental advantage of providing a cross-reference, at the point at which the forward commitments involved in such operations are authorized, to the language authorizing the associated spot holdings.

3. The following amendment is recommended in the table contained in paragraph 2 of the authorization, listing authorized swap arrangements:

Bank for International Settlements:	
System-drawings-in DOLLARS AGAINST Swiss francs	600
System-drawings-in DOLLARS AGAINST authorized	
European currencies other than Swiss francs	1,000

This amendment is proposed because the reference in the existing language to "System drawings," with no parallel reference to BIS drawings, might be a source of misunderstanding.