

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 5, 1974

To FOMC Staff

Subject: _____

From Murray Altmann

CONFIDENTIAL (FR)

Attached for your information are two reports prepared recently for the New York Bank's Committee on Foreign Account Activities and distributed to the Federal Open Market Committee. One report, prepared by Paul Meek, is entitled "Report on Foreign Official Investment in the United States - the Federal Reserve Role." The other, prepared by Peter D. Sternlight, is entitled "Report on Federal Reserve Guarantee of Acceptances Held for Foreign Accounts."

Attachments (2)

Report on Federal Reserve Guarantee
of Acceptances Held for
Foreign Accounts

In recent months there has been a sharp increase in the volume of bankers' acceptances purchased and held for official foreign accounts, and carrying the Federal Reserve's guarantee. While the practice of guaranteeing these holdings has a long history in the Federal Reserve System, dating back to 1920, and was undertaken for such desirable purposes as the encouragement of the acceptance market and the provision of suitable dollar-denominated liquid assets in which foreign official accounts might be invested, the recent rapid growth has raised a question as to whether the guaranty policy should be reconsidered and modified in some manner.

Less than two years ago, at the end of 1972, the volume of bankers' acceptances held at this Bank for foreign accounts, and carrying the Federal Reserve's guarantee, was \$179 million -- within the approximately \$100-\$250 million range of fluctuation prevailing since 1960.^{1/} During 1973, the amount thus held, and guaranteed, rose to \$581 million, while in late October 1974 the amount soared to more than \$2,000 million. Orders currently on hand, but not yet executed, could increase the total by an additional substantial amount. With other countries developing an increased interest in these investments, it is not out of the question that -- unless present policies are modified -- the total could approach \$3 billion within the next several months.

^{1/} A table showing amounts of acceptances held for foreign accounts at year-end dates back to 1920, is appended to this memorandum.

Underlying the rapid growth of foreign official holdings of acceptances is the development of a significant yield advantage over such comparably secure investments as Treasury bills. The yield advantage over Treasury bills has ranged as high as 3 or 4 percentage points during the past year, although most recently the spread has been somewhat over 1 percentage point. After deducting the 1/8 percent guaranty fee charged by the Federal Reserve, this still leaves a considerable yield advantage in favor of acceptances, and foreign official accounts have become increasingly cognizant of this advantage.

Guaranteed acceptances have always been offered as an investment outlet to foreign central banks as a matter of routine. Acceptances are, of course, an attractive investment outlet highly suitable for some portion of a central bank's dollar reserves. Particularly when foreign account demands as well as System demand have driven Treasury bill rates down to artificially low levels in relation to prevailing money market rates, the advantages of diversifying into other safe investments -- including acceptances -- has become crystal clear.

Not only are foreign accounts more interested in acceptances today than was the case, say, a year ago, but also the total availability of such paper in the U. S. market has expanded at an accelerated pace. During 1973, total outstanding acceptance volume increased by \$1,994 million to \$8,892 million. By earlier standards, this was an unusually large annual increase; for the five years ended 1973 the average annual increase was under \$1 billion. But through the first nine months of 1974 the total shot up by \$7,143 million to \$16,035 million, dwarfing earlier growth rates by a wide margin. If the Federal Reserve System should undertake to purchase finance bills, and if foreign accounts were also willing to purchase these nontrade-related instruments, the potential for expansion of the acceptance

market would be even greater.

Present concern over the rapid growth in our guaranteed acceptance holdings reflects two considerations -- first, the size of the Federal Reserve's exposure; and second, the desirability from a broad economic policy standpoint of extending the Federal Reserve's guarantee to a sizable segment of the private credit market for foreign central banks and monetary authorities.

On the first point, Federal Reserve exposure, there is reason for increased watchfulness, but not for alarm. The acceptance market has an unblemished record for safety. Since the earliest days of the acceptance market in the U. S. we know of no instance where an investor in paper accepted by a U. S. bank (including U. S. agencies of foreign banks) failed to receive payment.^{1/} In these days of unpleasant surprises in the banking world, one should not of course permit a good past record to breed complacency.

The second concern is whether the Federal Reserve's guarantee -- which has been likened to a U. S. Government guarantee -- should be extended on an open-ended basis to a segment of the private credit market for foreign banks and monetary authorities. While a strong case could be made for providing this guarantee in the past -- in order to encourage a fledgling market in bankers' acceptances and help develop an attractive investment vehicle for foreign official accounts in the U. S. money market -- there is reason to question now whether such a guarantee is any longer justifiable. Especially, it seems questionable whether the Federal Reserve should continue to provide the guarantee on a nearly unlimited scale, responding to whatever purchase orders the foreign accounts choose to give us -- restrained only by the

^{1/} Even in the 1930's when some accepting banks failed, investors were repaid by the underlying borrowers.

over-all availability of "prime" acceptances in the market and by internal guidelines such as our present rule that we will not buy the acceptances of a particular bank if we already hold 50 percent of the outstanding acceptances of that bank either for our own or foreign accounts.^{1/} Another "limitation" is the fact that member banks may have trade-related acceptances outstanding only up to 100 percent of their capital and surplus -- but many accepting banks have substantial leeway under this standard.

Historical Background

Before turning to a consideration of specific modifications in the existing policy of purchasing and guaranteeing acceptances for foreign accounts, it is relevant to look at the earlier history of the acceptance market in the United States and foreign account participation in it.^{2/}

The development of the bankers' acceptance market in the United States is in fact closely intertwined with the formation of the Federal Reserve System. Indeed Randolph Burgess wrote in 1927:

"The bankers' acceptance....is a comparatively new member of the society of credit instruments in this country.... It did not grow up from gradual and unconscious beginnings, as do most of our institutions, but it was taken over from Europe at the same time that the Federal Reserve System was inaugurated.

1/ We have a lower guideline for certain foreign agency banks.

2/ The material that follows draws heavily on a memorandum prepared at the Federal Reserve Bank of New York, dated October 29, 1956, entitled: Memorandum for the Board of Governors of Federal Reserve System Reviewing Federal Reserve Practice of Buying Acceptances for Foreign Accounts.

"The adoption of the bankers bill was a matter of curiously unanimous consent. In all of the discussion surrounding...the debate over the Federal Reserve Act, there was hardly a dissenting voice to the proposal for establishing a discount market. The Federal Reserve legislation granted to banks in this country the power to accept drafts drawn upon them. These were made eligible for purchase by the Federal Reserve Banks, and thus the necessary foundations were laid for a discount market."1/

One of the purposes of the Federal Reserve Act and some of its early amendments was to authorize and foster the development of an acceptance market in the United States as a means of financing foreign trade. The idea was to create a dollar bankers' acceptance market to rival bankers' bill markets in Europe, notably the sterling bill on London which had been a leading means of financing world trade.

In 1916, this Bank began to develop reciprocal correspondent relationships with foreign central banks. It was envisaged that each central bank would maintain a substantial balance with the other as compensation for carrying the account, and that each might invest in the bankers' acceptances in the other's market. Our first such agreement was with the Bank of England, in 1917, although the first actual purchases were in 1920. Under the 1917 arrangement, this Bank agreed with the Bank of England that each institution would, at the request of the other, purchase prime sterling bills or prime dollar bills for the account of the other institution, with the Bank of England to be responsible for the payment at maturity of the sterling bills bought on behalf of the Federal Reserve Bank of New York, and the New York Bank to be responsible for the dollar acceptances bought for the Bank of England. There was no guarantee fee to be charged, as it was believed that the maintenance of a substantial balance by each bank

1/ The Reserve Banks and the Money Market (New York, 1927), pp 126-7.

with the other would be sufficient compensation. The arrangement was modeled on the Bank of England's long-standing agreements with its foreign correspondents. In 1921 we began charging a 1/4 percent commission instead of relying on a "free balance" for compensation with all correspondents except the Bank of England; the charge was reduced to 1/8 percent in 1926 and was applied to the Bank of England in 1929. For a time -- 1921 to 1934 -- our standard letter of terms and conditions provided that in case of purchases without our guarantee of payment no commission would be charged, but available records do not indicate that any such nonguaranteed purchases were made.

This Bank has made only limited purchases of foreign bills. In 1924, at the suggestion of the Bank of England, we bought a small amount of sterling bills, while in 1928 we bought some franc bills, and in 1931 through the BIS we bought Dutch and Polish bills.

In some of the memoranda prepared at this Bank in regard to the practice of guaranteeing acceptance purchases and charging a fee for this service, reference is made to a moral commitment on our part to stand behind the purchases made for foreign accounts. Thus in N. P. Davis' Report to the Directors of this Bank on November 8, 1956, he stated:

"We have also taken the view that we should be unwilling to purchase bankers' acceptances for foreign account without giving our guarantee of payment at maturity. Prior to 1937 we had offered our correspondents the privilege of buying bankers' acceptances through us either with or without our guarantee, but we were not taken up on the offer to purchase bankers' acceptances without our guarantee and, as a consequence, we withdrew the offer at the time of the adoption in 1937 of our standard form of letter of terms and conditions which is still in use. We feel that in selecting particular bankers' acceptances for account of foreign correspondents we assume a moral responsibility, and that such moral responsibility should be formalized by a guarantee. We also feel that, if we should resume the practice which we followed in the early days of the Federal Reserve System of buying bankers' acceptances in foreign markets, we would

not wish to do so without obtaining the guarantee of the central bank in the market in which we were investing, since we would not be in a position to evaluate the credit risks involved. Under the doctrine of reciprocity, we should, therefore, be prepared to supply a similar guarantee to foreign central banks who wish to purchase bankers' acceptances in this market."

Since we were prepared, prior to 1937, to buy acceptances for foreign accounts either with or without the guarantee, there is perhaps some question whether Federal Reserve officials in the 1920's felt that there was a moral responsibility for the purchases we made for foreign accounts. Our willingness to provide the guarantee was perhaps largely a matter of seeking the reciprocal guarantee in the event that we would buy foreign acceptances. Apparently our move to withdraw the offer to purchase acceptances without the guarantee followed a communication from the Bank of England, in 1934, suggesting that we omit reference to the possibility of buying bills for their account without our guarantee; they also stated that they themselves were no longer willing to buy acceptances for other central bank accounts on an unguaranteed basis, since they believed that a moral responsibility existed in any case. It might be noted further that on a more recent occasion, in 1971, this Bank bought commercial bank certificates of deposit for a foreign central bank without providing a guarantee; the foreign central bank agreed beforehand to the list of United States banks whose CDs would be acceptable.

The special role of bankers' acceptances, and foreign central bank purchases of these instruments, was recognized in the Federal Reserve Act and also in Federal tax legislation. A provision of the Revenue Act of 1928, included at the request of the Treasury with the support of the Federal Reserve System, in effect rendered income derived by a foreign central bank of issue from bankers' acceptances exempt from U. S. taxation, which exemption is present in

the current Internal Revenue Code. Foreign central banks were further recognized as a special class in Section 895 of the Internal Revenue Code, which exempts foreign central banks from taxation on income derived from obligations of the United States or of any agency or instrumentality thereof, and interest income from bank deposits unless such obligations or deposits are held for or used in connection with commercial bank activities.

Not to be overlooked is that the guarantee fee charged to foreign accounts over the years has been a source of income to the Federal Reserve Banks. It has varied, of course, with the volume of acceptances purchased. In 1973, the income from this source was \$558,000. This year it may be three times that figure, having accumulated to \$1,140,000 through October 18. Yearly fees are shown in the table attached to this memorandum, along with the information on year-end holdings for foreign accounts.

Consideration of Alternatives

A wide range of alternatives, or combinations of them, might be considered in response to the questions raised at the start of this memorandum. The possibilities range all the way from abrupt termination of existing guarantees to imposition of dollar limits on the guarantee, to adjustments on the fee schedule, to no action at all.

As a general comment it might be noted here that the imposition of a dollar limit on the guarantee would not be new. A limitation was first imposed on such holdings by the Board of Governors in 1937, equal to \$25 million. In earlier years, the Bank had acquired acceptances for foreign accounts and, jointly with the other Reserve Banks, guaranteed their payment at maturity, without any limitation

being set by the Board. Acquisitions began in 1920 and holdings reached a high point in 1929 (\$548 million held at year-end 1929). The volume diminished abruptly in the early 1930's, and remained at low ebb through World War II and in the early postwar years. By September 1950, as the \$25 million limit was being approached, this Bank requested either an increase in the limit to \$50 million or a removal of the limit (as had been done earlier in the case of Government securities purchased for foreign accounts). The Board opted for a \$50 million limit. The limit was raised again in several steps to \$150 million by January 1958, and at the end of that month it was removed altogether "with the....understanding that a quantitative limitation may be imposed again at any time if the circumstances should make this desirable".^{1/}

In requesting the removal of the limitation, officers of this Bank made the point that a specific quantitative limitation tended at times to impede our operations on behalf of foreign accounts; at the same time it was noted that the Board's Division of International Finance was informed each day in regard to this Bank's activity on behalf of foreign accounts, and that this could serve the Board's purposes as a substitute for the previous rigid limit.

^{1/} The quotation is from S. R. Carpenter, Secretary of the Board, in a letter to Mr. Hayes dated January 30, 1958.

The alternatives presented below indicate some of the main lines of choice that might be made.

Alternative 1. Discontinue the guarantee on all existing holdings of acceptances. This step is so drastic as to be well-nigh unthinkable, involving as it would a change in an existing contract. It is included only for the sake of presenting a full range of choices. It would be justified only if the past guarantee practice were regarded as quite improper. The risk of misinterpretation would be high. Should the feeling develop that this departure from past practice represented a loss of confidence by the Federal Reserve in the solvency of the U. S. banking system the costs could be high indeed. If one did try to pursue this course, then we might be under some obligation to repurchase the acceptances from the foreign account if they were unwilling to hold the paper without a guarantee. The main point to be made about this alternative, however, is that there is no need for such a drastic step to be given serious consideration, since our acceptance holdings for foreign accounts are all of short maturity -- generally coming due within three months. Thus, merely refraining from guaranteeing new purchases would accomplish the same objective of terminating the guarantee within a relatively short time, without the overtones of renegeing on a contract that would be entailed in this first alternative.

Alternative 2. Discontinue the guarantee on new purchases of acceptances. This is also a rather drastic alternative, although it is the one that logically follows if one concludes that the guarantee has outlived its original purposes of fostering an acceptance market in the United States, and helping to finance foreign trade. Another argument used in the past for our guarantee is reciprocity --

that we would want the guarantee if we were to buy foreign acceptances. However, given the changes in the world international financial scene over the past several decades it does not seem too realistic to anticipate that we would want to build up holdings of foreign acceptances, and there might well be a reluctance on the part of foreign central banks to guarantee such acquisitions, particularly if made on a sizable scale.

Arguing against a sudden cessation of our guarantee, however, is the fact that such a step might have seriously adverse effects on the general state of confidence in our banking system, at a time of continuing great sensitivity. With the Franklin situation still a very lively memory, and some other banks and financial intermediaries remaining under something of a cloud, this is hardly a desirable time to take a step that would seem to advertise our distrust of the banks.

There are modifications of this alternative that would make it less abrupt -- such as posting a future date beyond which we would not guarantee purchases, or informing our foreign accounts that we want gradually to decrease the amount we guarantee for them (for example, by guaranteeing only a portion of the acquisitions needed to roll over maturing amounts). But any of these variations that have the clearly perceived end-result of getting us out of the guarantee altogether would partake in some considerable degree in the confidence-weakening objective noted above.

Alternative 3. Set a dollar limit on the volume of acceptances that could be guaranteed. This would follow the precedent set in the years 1937-58 -- except that during that period the limit did not operate as a real constraint, as it was increased whenever

holdings came close to the ceiling amount.^{1/} If a limit were set now, it would presumably be at some level that might soon be approached, and at some point the foreign accounts and other participants in the acceptance market (dealers and accepting banks) would have to be made aware of the limits. The setting of an over-all limit, presumably by the Board of Governors, would still leave open the question of allocating guaranteed acceptances within that limit. This could be left to the Federal Reserve Bank of New York, in order to preserve maximum operational flexibility, or it might also be undertaken by the Board. For example, one approach might be a global limit of \$2.5 billion or \$3 billion acceptances, with individual countries limited to, say, \$250 million or \$300 million of guaranteed holdings. Two countries already have in the neighborhood of \$400 million of acceptances, so that under this approach we would have to let their guaranteed holdings decline, through maturities, to the prescribed level before purchasing any more for them on a guaranteed basis.

The case for a global limit is that while recognizing the validity of a Federal Reserve posture encouraging to the acceptance market, and the validity of singling out foreign official accounts for special consideration, the satisfaction of these objectives need not require an open-ended commitment. One does not need to impugn the soundness of our banking system to say that it is reasonable to have a ceiling on the volume of acceptance credit that the Federal Reserve should be expected to guarantee.

^{1/} The one exception was in January 1958 when the increased limit did not come through fast enough to complete the execution of a particular order, and the balance of the order was cancelled.

On the other side it may be argued that any application of a rigid limit will in some degree pose the disadvantages cited in connection with Alternative 2 above -- namely, tending to cast some doubt on confidence in the banking system -- and the present state of confidence is too fragile to take any chances at all with a new approach. To this it might be countered, though, that a failure to act in some restraining way could also impair confidence in our financial system as the realization grew that the central bank was unwilling to limit the potential growth in its contingent liabilities. In this connection it might be pointed out that the Federal Reserve's contingent liability on acceptances is now nearly equal to 100 percent of its capital and surplus accounts -- which is the maximum ratio permitted for national banks.

Alternative 4. As a variant on Alternative 3, or perhaps in combination with the global dollar limit under that alternative, the System could limit the guaranteed acceptances to be held for any one country to specified proportions of its dollar investments held at the Federal Reserve. This approach would share the advantages noted under Alternative 3, in preserving the principle of guaranteeing acceptance holdings for official foreign accounts and limiting the extent of that guarantee. At the same time it would provide some degree of equity in applying a limit to different countries with widely different dollar reserve resources, and it would do this in a manner that encouraged the foreign accounts to place the bulk of their dollar reserves in Government securities.

A disadvantage of this approach is that in practice, the foreign accounts acceptance holdings are now quite unevenly distributed

in proportion to other holdings through this Bank. If one sought to apply a uniform ratio, some countries would have a great deal of leeway to build up holdings, and others would have to cut back sharply. Yet the propensities of different countries to hold acceptances might be quite different and we could engender unnecessary frictions by seeking to force every account into the same mold. Thus if this approach were to be adopted, it should provide for considerable flexibility in its administration, with liberal use of grandfather clauses until we could appraise the extent to which some countries not yet active in acceptances might develop an interest in them.

Alternative 5. Limit the guarantee to some proportion of a foreign account's acceptance holdings, such as 50 percent. One way that this could be applied would be to guarantee 50 percent of each acceptance held for the foreign account -- in effect, a loss-sharing agreement. This would have the advantage of reducing the Federal Reserve's theoretical exposure, while preserving the principle of a guarantee. It would have some parallel with the loss-sharing arrangements under the swap-line agreements. One disadvantage of this alternative is the considerable uncertainty as to its effect. It is very difficult to say how foreign accounts might react to the change. Probably the reaction would depend to a considerable extent on how the change was presented to them. If it was presented as a minor technical matter, this would do little to discourage their interest in acceptances, or to meet the problems noted at the outset of this paper. If it is presented as a significant change, we might substantially discourage their interest and bring about some of the disadvantages noted earlier in connection with a complete withdrawal of the guarantee feature.

Alternative 6. Raise the guarantee fee. This would serve two purposes -- namely, cutting down the yield advantage of acceptances over Treasury issues, and providing a specific contingency reserve in the event of losses on acceptances. Under present circumstances, the guarantee fee would have to be raised quite steeply to cut into the yield advantage now running in favor of acceptances. It would have to go up, say, to at least 1/2 percentage point -- a level far in excess of traditional guarantee fees. No doubt the change would be viewed as a sort of interest equalization tax, since the move would be hard to justify on the basis of past loss experience. And indeed, if we sought to justify it on grounds of future loss anticipations this could have an adverse impact on confidence in our market. Unless there were flexibility to vary the guaranty fee quite frequently, as yield relationships changed in the market, it would be difficult to set the fee at just the right level to slow down foreign interest in acceptances without turning off that interest almost completely. If we did not discourage foreign interest, we would still have the problem of an ever-growing contingent liability. And if we did substantially discourage interest there would be seriously adverse effects on the acceptance market. Another point to keep in mind is that a sharp increase in the fee that was not clearly justified by loss experience could be regarded as somewhat unfriendly by the foreign accounts.

As for building up a reserve fund, say to 1 or 2 percent of our contingent liability, there would seem to be good reason to do this, now that our contingent liability is approaching the magnitude of our total capital and surplus accounts. Some past discussions in our files have argued against this approach on the ground that it would tend to distort our income statement since there really is so

little risk, but perhaps the risk is enough to warrant a small fund.

Another related step that might be taken in this same area is to tack on a small service charge in specific recognition of the fact that acceptances are more cumbersome and costly to deal in than some other investments that the foreign accounts might make. Even charging 1/16 of 1 percent would net a respectable sum offsetting much of our costs and permitting the whole of our guarantee fee to go toward building the suggested reserve fund.

Alternative 7. Tighter standards for "prime acceptances". Independently of the other steps discussed above, there is reason to consider a tightening of our standards of what constitutes "primeness" in acceptances. Our general posture has been that we regard as prime what the market considers prime, but this has become an increasingly slippery concept. In the past several years the market has tended to draw greater distinctions between "top tier" and other accepting bank names. This process began a few years ago along with the breakdown of the system under which all dealers posted fixed bid and offered rates for all "prime" acceptances and tended to change these fairly infrequently. Subsequently, the dealers' rates have become more flexible, not only as to the timing of changes but also as to the spreads between bid and offered rates, and levels of bid and offered rates for various groups of "prime" bank names. Particularly in the past year, following the difficulties at Franklin National and rumors about other banks, spreads between top tier and lesser accepting bank names have widened considerably -- at times to more than a full percentage point. Of course, if the Desk were to take a significantly more restricted view of primeness, this could operate in somewhat the same fashion as a general discontinuation of our guarantee to place a cloud

over the soundness of a portion of the banking system.

We have already noticed as a result of the more sharply delineated "tiering" of names in the acceptance market that medium-sized regional banks are relatively heavily represented in our own and our foreign account portfolios, compared with the over-all participation of these banks in the volume of outstanding U. S. acceptances, while our holdings of "top-tier" acceptances -- drawn on the largest and most highly regarded banks (at least in the market's eyes) -- are relatively light. This has developed because the acceptances of the largest banks, especially the top seven in the country, tend to be taken up by private market investors at premium prices. Following our "best price" policy, we tend to purchase relatively large amounts of the less highly regarded names. Recently we have been seeking to achieve more representation for the top-tier banks in the portfolio we hold for foreign accounts (as well as our own portfolio) even at some sacrifice in yield -- not because we feel the regional names should be shunned, but because it seems prudent to have a distribution that is more representative of the market as a whole.

Alternative 8. Seek to persuade foreign accounts to limit their purchases. Under this approach, rather than set new limits either in dollars or ratios, or raise fees, we would seek through persuasion to steer foreign accounts into a reduced emphasis on acceptances. This approach was taken recently with one account that had given the Bank an exceptionally large order, and that order was subsequently scaled down. Another account was persuaded, on the grounds of limited availability of acceptances at the time, to refrain from pressing additional orders on us. While there is great merit in combining suasion with whatever other limits may be set, there is a real

question whether standing alone it can stem the rising tide of foreign interest in acceptances. Some accounts with an enormous potential are just beginning to take an interest in holding acceptances with our guarantee. And while we can refrain from making special efforts to promote such investment, it may be somewhat inequitable to steer these newcomers entirely away from this type of investment when established buyers are still expanding their participation. Thus it would not seem right, in outlining investment options, to ignore the acceptance market as one of the reasonable possibilities.

Alternative 9. Make no change in current practice. Like the first alternative of immediately abandoning the guarantee, this one is included only to circumscribe the full range of choices. The recent growth in guaranteed holdings has been too great to ignore the problem and hope it will go away. At the very least there should be some suasion exercised to discourage instances of rapid build-up in guaranteed acceptance portfolios.

Conclusions

While there was merit in the program of guaranteeing acceptance purchases for foreign accounts in the early years of the Federal Reserve, and early years of the acceptance market, the guarantee program has outlived its usefulness. The present time is an extraordinarily poor one to abandon the program entirely, however. At the same time, the rapid build-up in holdings of guaranteed acceptances is too great to ignore. There is not only the enlarged risk exposure, but perhaps more importantly the sharply expanding and nearly limitless potential for further expansion in what is effectively a U. S. Government guarantee of private credit for one class of holder.

Clearly some action should be taken -- including, but not

confined to persuasion. The best approach seems to lie along the lines of an over-all dollar limit set by the Board of Governors, with the Federal Reserve Bank of New York given some flexibility to set country standards within that constraint. Moreover, the eventual long-run aim should be to terminate the guarantee program entirely.

Also, in the interim period that a guaranty program is retained -- and it could be a lengthy interim period -- a specific reserve fund should be designated to cover potential losses. Finally, a small service charge might be made for handling acceptance purchases.

Recommendations

A. The Board of Governors should place an over-all limit of \$2.5 billion on the volume of acceptances that may be held and guaranteed on behalf of official foreign accounts.

B. The Federal Reserve Bank of New York should develop individual country limits within the foregoing total, giving recognition to past participation in the market but also to the over-all size of a country's dollar investments maintained through this Bank. For example, the maximum could be based on a percentage of total holdings at this Bank. In general, the Bank should seek to discourage purchases by relatively heavy buyers.

C. Additional purchases could be made for any foreign account on a nonguaranteed basis.

D. Consideration should be given to placing the present $\frac{1}{8}$ of 1 percent guaranty fee in a special reserve fund until it reaches 1 percent of the Federal Reserve's contingent liability on acceptances, and consideration should be given to increasing the fee.

E. Eventually, as soon as can be accomplished in a non-disruptive fashion, the Federal Reserve guarantee of acceptances for

foreign accounts should be phased out.

Prepared for Committee on Foreign Account Activities
Peter D. Sternlight
November 4, 1974

Authorized for public release by the FOMC Secretariat on 8/21/2020
Federal Reserve Guaranteed Holdings of Bankers' Acceptances
for Foreign Accounts
and Commission Earnings on the Guarantees

(In millions of dollars)

<u>Year</u>	<u>Year-end Holdings</u>	<u>Commission Earnings</u>	<u>Year</u>	<u>Year-end Holdings</u>	<u>Commission Earnings</u>
1920	16	--	1947	2	.007
1921	32	--	1948	3	.004
1922	34	--	1949	10	.007
1923	18	--	1950	22	.017
1924	43	--	1951	21	.033
1925	65	.125	1952	20	.014
1926	56	.093	1953	24	.033
1927	227	.271	1954	19	.016
1928	414	.352	1955	33	.036
1929	548	.556	1956	50	.063
1930	439	.598	1957	76	.084
1931	251	.398	1958	68	.135
1932	40	.174	1959	82	.088
1933	4	.041	1960	230	.235
1934	1	.002	1961	126	.189
1935	--	--	1962	86	.116
1936	--	--	1963	92	.114
1937	2	.002	1964	122	.157
1938	--	--	1965	144	.185
1939	--	--	1966	191	.261
1940	--	--	1967	156	.303
1941	--	--	1968	109	.149
1942	--	--	1969	146	.189
1943	--	--	1970	250	.288
1944	--	--	1971	254	.334
1945	--	--	1972	179	.304
1946	7	.002	1973	581	.558
			1974*	2,021	1.140

*Holdings as of October 30, 1974; earnings through October 18, 1974

FEDERAL RESERVE BANK OF NEW YORK

CONFIDENTIAL--F.R.

Report on Foreign Official Investment
in the United States--
the Federal Reserve Role

Investment by the OPEC countries this year in U.S. securities is but the latest wave of a flood of foreign official investment over the past five years. The key role of the dollar as an international currency, and the breadth of the market for U.S. Treasury and Federal agency securities have made it logical for many foreign countries to invest a major part of their liquid foreign exchange reserves in this market. Thus, the foreign account holdings of Treasury and Federal agency securities and bankers' acceptances at this Bank have risen from \$7.5 billion at the end of 1969 to \$56 billion on September 30, 1974. This buildup has been accompanied by a sharp increase in the daily volume of Trading Desk transactions for foreign central banks.

Assuming continued freedom for international capital movements, funds are likely to continue shifting between the United States and other markets and between different foreign central banks. There is a question whether the System and the Treasury would be better able to meet their domestic and international responsibilities if these flows continue to be channeled through this Bank or if they were diverted instead to private financial institutions. This paper concludes that

this Bank's active involvement in foreign account activity contributes, on balance, to the System's ability to achieve its monetary policy objectives through a smoothly functioning Government securities market, and strengthens the Treasury's ability to place debt with both foreign and domestic investors.

The paper is divided into four parts: (1) the buildup in foreign holdings of securities, (2) System open market operations and foreign official investment activities, (3) the Treasury's debt management interest in foreign central bank activity, and (4) conclusions.

I. The Build-up of Foreign Official Holdings.

The Federal Reserve System has long sought to foster cooperation between nations in matters affecting the international financial system. It has upheld in its own practice the precept that central banks should keep the central bank of the host country fully informed about their investment and foreign exchange activities in its markets. The System has provided deposit, investment, and foreign exchange facilities to foreign central banks and international institutions through its agent, the Federal Reserve Bank of New York. The System has depended, in turn, on foreign central banks to carry out foreign exchange and other activities on its behalf. The working relations built up with 128 accounts over many years provide the basis for mutual consultation on matters delegated to central banks by national governments.

Against this background, foreign central banks have channeled the bulk of their U.S. investment in liquid dollar

assets through this Bank. The centralizing of this activity has enabled the Federal Reserve to keep close tabs on these investments. In its operational role, the Trading Desk in close cooperation with Treasury officials has been able to moderate the impact of major shifts of funds on the market for Treasury securities and on the reserves of the banking system. The active management of large flows has contributed significantly to the attractiveness of Treasury securities to foreign investors, who have been able to invest or disinvest large amounts on short notice. Foreign central banks also value the confidentiality with which the Federal Reserve conducts their operations.

The growth of foreign and international investments in U.S. Government and other securities has been explosive (see Tables 1, 2, and 3). Foreign holdings of U.S. Treasury debt rose from 3 percent of the debt held by private investors at the end of 1969 to over 20 percent on August 31, 1974. The \$47 billion rise in foreign holdings over the interval exceeded by \$9 billion the total increase in the privately held Federal debt. Foreign official investors held more Treasury debt at mid-1974 than all U.S. commercial banks. The great bulk of foreign holdings are at this Bank (see Table 4).

The rapid increase in foreign holdings of Treasury debt has been accompanied by a substantial increase in the activity of such accounts. In the first eight months of 1974, outright purchases and sales of Treasury and Federal agency securities averaged \$330 million per day, compared with about

\$140 million in 1969. Outright transactions for these accounts are currently three times the volume of System outright transactions, and have exceeded System transactions since 1967.

As foreign accounts have built up their liquid assets, they have become increasingly interested in diversifying beyond Treasury bills into Treasury coupon securities, Federal agency issues, and bankers' acceptances, which offered higher yields (see Tables 5, 6 and 7). Germany, Japan, Canada and Switzerland have been among those extending their portfolios into securities maturing in more than one year. More recently, many countries--including the OPEC countries--have been adding substantially to their holdings of bankers' acceptances, boosting their total portfolio of acceptances by \$1.5 billion so far this year to about \$2 billion. The interest of the OPEC countries in high-yielding short-term investments has also led to the investment of funds temporarily in repurchase agreements on Government and Federal agency securities. A handful of foreign accounts have also placed funds with commercial banks on a renewable overnight basis, equivalent to sales of Federal funds.

II. System Open Market Operations and Foreign Official Investment Activities.

The Federal Reserve System is vitally interested in the impact of foreign investment activities both on the markets in which System operations are conducted and on the conduct of operations themselves. The System shares with the Treasury a concern for the orderly functioning of the market for

Treasury and Federal agency securities. Such a market is essential to the effective control of bank reserves through open market operations under the instructions of the Federal Open Market Committee. The Federal Reserve and Treasury have worked closely for many years to assist the development of a broad competitive institutional secondary market for Treasury securities--one which provides them with a degree of marketability unique among debt instruments. Foreign central banks have placed the major part of the U.S. component of their dollar foreign exchange reserves in these securities.

Through close cooperation the System and the Treasury have been able to manage the impact of enormous swings in international monetary flows on U.S. securities markets and bank reserves during recent years.^{1/} The importance of being able to take concerted defensive action can be illustrated by the actual experience of the two weeks ended February 14, 1973. During that brief interval the speculative flood of dollars into foreign central banks resulted in their channeling \$8.1 billion of investment orders to the Federal Reserve Bank of New York during the two weeks. Given the existing market supply of securities, such orders could not have been executed within such a brief period, and an all-out effort to do so

^{1/}See memorandum to the Federal Open Market Committee entitled "Foreign Official Holdings of United States Debt--Issues and Problems" by the staff of the Federal Reserve Bank of New York dated March 16, 1973.

would have disrupted the Treasury's market and been inconsistent with the FOMC's existing policy posture. In the event, the Trading Desk bought \$2.5 billion net of Treasury issues in the open market and the remaining \$5.6 billion was placed with the Treasury's agreement in special Treasury certificates of indebtedness. To avoid the reserve drains to the banking system that would have resulted from the high Treasury balance, the Treasury made temporary redeposits to tax and loan accounts at the "C" depositories.

Timely concerted defensive action by the Federal Reserve and Treasury allowed the abrupt impact of these foreign flows to be attenuated, leaving policymakers free to concentrate on the appropriate response to the economic implications of these flows. Yet the Treasury was embarrassed by the resulting high level of its tax and loan account balances at commercial banks. To be sure, the inflow in February and later largely met the Treasury's cash needs for the balance of the fiscal year. But the Treasury has been pressured by Congress to reduce, or be compensated for, its balances with commercial banks. In 1974 the Treasury has developed procedures for placing similar excessive inflows, should they develop, in time deposits with commercial banks.

Normally, the flow of foreign purchase and sale orders through the Trading Desk is very helpful to the Manager of the Account as he plans System open market operations. Each day from 20 to 30 foreign accounts will typically be selling Treasury securities and a similar number will be buying. The

Manager's ability to buy from, or sell to, these accounts immediately increases his options for managing reserves in the light of current conditions in the Treasury securities market, taking into account the nuances of his instructions from the FOMC. Frequently, the System's sale of the issues being purchased by foreign accounts will meet the Manager's current estimate of the need to absorb reserves. The subsequent Trading Desk execution of foreign sale orders usually has considerably less psychological impact than would outright System sales. At other times, System and foreign account transactions can be combined in a single market entry. Operations with foreign accounts have accounted for half or more of outright System transactions in recent years (see Table 8).

The usefulness of having this extra dimension to the Manager's options was again evident in 1974, taken as a whole. Through mid-year the System increased its pressure on the banking system by holding back on the provision of nonborrowed reserves relative to the growth of deposits. Government securities dealers and others tended to keep their positions at very low levels because of their expectations of rising interest rates, with the result that there were frequently market scarcities of Government securities. Nearly all of the System's outright sales of Treasury bills undertaken during the year were conducted unobtrusively by selling to foreign accounts--\$4 billion out of total sales of \$4.3 billion (Table 9). Equally important, the purchase of bills directly from foreign accounts was instrumental in helping the System meet reserve need unobtrusively

when market supplies of bills were often scarce and Treasury bill rates were well below other short-term rates. System purchases from foreign accounts exceeded purchases in the open market in all but one of the inter-meeting periods before System policy shifted direction in August. (System purchases of Treasury coupon securities and Federal agency issues were the primary market channel for supplying reserves.)

There are, of course, occasions on which the Manager will find that foreign accounts are sizable net buyers when he is having difficulty supplying the volume of reserves he would like through System purchases of Treasury and Federal agency securities. (Given the size of the System's portfolio, there is less often difficulty in absorbing an adequate volume of reserves.) Such was the case in early July 1974 when the Manager was temporarily unable to supply as large a volume of reserves as desired and the Federal funds rate rose over 1 percentage point above its desired level for a number of days. One is tempted to conclude on such occasions that the Manager would have been better able to meet his objectives if he had not had to execute foreign orders. It should be pointed out, however, that for July as a whole the System was able to purchase \$988 million securities from foreign accounts.

The question is really not one of whether the conflicts between System reserve management and foreign investment activities are increasing. Rather it is one of whether the Manager's ability to achieve System objectives would be enhanced if foreign investment activities were channeled

principally outside, rather than inside, the Federal Reserve Bank of New York. Almost certainly such a shift would complicate, and interfere with, the pursuit of System objectives. The real problem in July was the marketwide scarcity of eligible collateral in relation to a short-run reserve need. Had the flow of foreign orders been placed outside of the Federal Reserve Bank of New York, the spirited competition of a number of agents to execute foreign orders might well have increased the short-run scarcity of available securities. Market professionals, observing the competition, would probably have overestimated the extent of demand and withheld securities for sale later at higher prices. The Manager can manage much better with full knowledge of foreign operations and with the option of dealing with these accounts than if he has no knowledge of, nor role in, such activities.

The larger these variable and often unpredictable foreign investment flows is, the more important it becomes for the Manager to be able to assess, and affect, their impact on System operations and the Treasury securities market. By and large the System has not experienced significant difficulty in achieving the short-term reserve and money market objectives sought by the Federal Open Market Committee. To a considerable extent this result reflects the willingness of the FOMC to allow the Manager increased flexibility for dealing with the investment backlash of international currency flows. The Manager has been able to tailor operations to objectives, sometimes swapping maturities with foreign accounts or

bridging short intervals between large foreign sales and purchases.

Basic to the generally smooth management of the total impact has been the large volume of foreign orders that could be simply crossed between foreign accounts. Over half of all foreign account orders were crossed in this way in the first eight months of 1974, compared with less than one-sixth in 1969 (Table 10).

In sum, it seems vital in a world of large international dollar investment flows for the Federal Reserve Bank of New York to be in a position to know about such flows and manage their impact in the light of System objectives. Large central bank activity in our markets can be expected to continue. More and more central banks are diversifying their portfolios out of Treasury bills. The challenge is to cope with these shifting investment preferences in a way that provides the Manager of the Account with a full range of options for managing the impact on domestic markets and reserve objectives. One approach under study is the development of one or more diversified investment facilities, which would both be attractive to foreign accounts and consolidate a sizable part of daily investment activity. Such new initiatives should be thought of principally in relation to the non-OPEC accounts, for which we hold \$53 billion in assets. They would, of course, be available as well to the OPEC countries, whose holdings in recent weeks have risen to about \$5 billion.

III. The Treasury's Debt Management Interest in Foreign Central Bank Investment Activity.

The Treasury has a substantial interest in foreign activity because of the size of foreign ownership of Treasury debt and the impact of international flows on the market for Treasury securities. Foreign central banks owned about 20 percent of privately held Treasury debt on August 31, 1974. The buildup in their holdings over the past four and one half years amounted to \$46 billion out of the \$114 billion increase in the debt since the end of 1969. (Federal Reserve and Government trust account holdings rose \$77 billion over the same period.) Moreover, the concentration of foreign account investments in Treasury issues, notably short-term debt, may well have reduced Treasury interest costs during the period. The extent of this effect is hard to measure, of course, since interest sensitive investors with other options tended to reduce their Treasury holdings over the period.

Much of the increase in foreign holdings took place during the speculative currency flows of recent years, with growth quite moderate in 1973 and 1974. As noted earlier, the Treasury has often issued a large volume of special non-negotiable certificates or notes during turbulent periods, facilitating foreign investment but at the same time reducing the Treasury's cash requirements. Often the timing of the inflows did not mesh well with the Treasury's cash needs, so that the Treasury paid interest on money it did not need. The concentration of these flows may still have conveyed benefits in

terms of lower over-all interest costs. But the Treasury has in recent months developed procedures for placing excess funds at interest for 30 days with depository banks. This innovation should reduce the marginal cost should large unexpected inflows develop in the future.

The Treasury has also a great interest in the impact of these flows on the secondary market for its securities. It has used non-negotiable issues flexibly in working with the Manager of the System Account to manage sudden large flows. The Treasury has also funded some of the shorter foreign debt into spaced maturities of intermediate-term debt. It has also played an important cooperative role in the management of bank reserves in the face of unexpected international and domestic flows. The Treasury has often been willing to adjust its balances at Reserve Banks to help the Manager deal with reserve surpluses or deficiencies. In recent months, however, the Treasury's efforts to maximize its balances at Reserve Banks has often made the reserve management job more difficult, contributing at times to the variability of Treasury bill rates in the secondary market.

To sum up, foreign central banks have become such large holders of Treasury debt that the Treasury has a strong interest in taking account of the needs of this class of investors. It seems likely that the flexibility the Treasury has demonstrated in the past will continue to be needed in the future--in the issuance of special securities, the management of the Treasury's balance, and the coordination of developments

with the Manager of the Account. The Treasury does not appear to have yet developed an integrated marketing approach that balances the special liquidity needs of this class of investors against its own cash management problem. Developing such an approach would be highly beneficial both to international relations and the continued interest of this class of investors. Failure to do so could well contribute to, or speed up, the diversification of foreign central banks into Federal agency and private securities.

IV. Conclusions.

Both the Federal Reserve and the Treasury appear to have strong reasons to foster centralized handling of foreign official investments in Treasury and other securities. Both have a responsibility for moderating the transactional impact of large scale flows on the domestic securities markets. Both need a viable Government securities market with depth and resiliency. The Manager of the System Account can do a better job of achieving the FOMC's objectives if foreign investment activities are concentrated at the Trading Desk because that increases the options for action available to him. The Treasury, in turn, benefits from full knowledge of such operations and the fact that the Reserve Bank is a stronger advocate of central bank investment in Government securities than any private agent is likely to be.

Two major avenues appear indicated to improve the operational procedures for dealing with foreign flows. First, the Federal Reserve Bank of New York needs to push on with the

re-evaluation of the investment and other facilities offered foreign central banks. On the investment front, more diversified investment facilities that reduce paper work or might serve to cover a portion of costs seem to be indicated. The Treasury for its part might find it useful to draw on the experience of the Federal Reserve Bank of New York in evaluating and reshaping its own marketing approach to this class of investors.

Paul Meek
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Committee on Foreign Account Activities
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Table 1

Holdings of United States Treasury Debt, by Selected Groups
(amounts in billions of dollars)

End of Calendar Period	Gross Federal Debt Outstanding	Held by				Percentage held by			
		Federal Gov't. Accounts	Federal Reserve System	Foreign Official Accounts ^{a/}	Others	Federal Gov't. Accounts	Federal Reserve System	Foreign Official Accounts	Others
1969	368.2	89.0	57.2	6.9	215.1	24.2	15.5	1.9	58.4
1970	389.2	97.1	62.1	16.0	214.0	24.9	16.0	4.1	55.0
1971	424.1	106.2	70.2	43.1	204.6	25.0	16.6	10.2	48.2
1972	449.3	116.9	69.9	50.8	211.7	26.0	15.6	11.3	47.1
1973	469.9	129.6	78.5	52.0	209.8	27.6	16.7	11.1	44.6
8/31/74	481.8	141.6	81.0	53.2	206.0	29.4	16.8	11.0	42.8
9/30/74	481.5		81.0	53.4			16.8	11.1	

^{a/} Held at Federal Reserve Bank of New York. Excludes Treasury securities held by these accounts elsewhere, which totaled \$1.0 billion at the end of 1973. Also excludes holdings of international and regional institutions, which totaled \$1.2 billion at the end of 1973. Also excludes holdings of Federal agency securities, of which only holdings at this Bank are known. At the end of 1973, these totaled \$0.9 billion for official foreign accounts and \$2.7 billion for international and regional institutions. Also excludes Treasury securities held under repurchase agreements, which totaled \$0.7 billion on August 31, 1974 and \$0.3 billion on September 30, 1974.

Table 2

Changes in Holdings of United States Treasury Debt, by Selected Groups
(amounts in billions of dollars)

Calendar Period	Increase in Gross Federal Debt Outstanding	<u>Change in holdings of</u>				<u>Percentage of increase taken by</u>			
		<u>Federal Gov't. Accounts</u>	<u>Federal Reserve System</u>	<u>Foreign Official Accounts^{a/}</u>	<u>Others</u>	<u>Federal Gov't. Accounts</u>	<u>Federal Reserve System</u>	<u>Foreign Official Accounts</u>	<u>Others</u>
1970	21.0	8.1	4.9	9.1	-1.1	38.6	23.3	43.3	-5.2
1971	34.9	9.1	8.1	27.1	-9.4	26.1	23.2	77.7	-26.9
1972	25.2	10.7	-0.3	7.7	7.1	42.5	-1.2	30.6	28.2
1973	20.6	12.7	8.6	1.2	-1.9	61.7	41.7	5.8	-9.2
1974 through August	11.9	12.0	2.5	1.2	-3.8	100.8	21.0	10.1	-31.9
September	11.6			1.4				12.1	

^{a/} See footnote to Table 1.

Table 3

Holdings of United States Treasury Debt by the Public
(amounts in billions of dollars)

<u>End of Calendar Period</u>	<u>Gross Federal Debt Held by the Public^{a/}</u>	<u>Held by</u>		<u>Percentage held by</u>	
		<u>Foreign Official Accounts^{b/}</u>	<u>Others</u>	<u>Foreign Official Accounts</u>	<u>Others</u>
1969	222.0	6.9	215.1	3.1	96.9
1970	229.9	16.0	213.9	7.0	93.0
1971	247.9	43.1	204.8	17.4	82.6
1972	262.5	50.8	211.7	19.4	80.6
1973	261.7	52.0	209.7	19.9	80.1
8/31/74	259.0	53.2	205.8	20.5	79.5
9/30/74		53.4			

^{a/} Excludes holdings of Federal Government Accounts and Federal Reserve System.

^{b/} See footnote to Table 1.

Table 4

**Foreign Official Holdings^{a/}
of U.S. Government Securities--
Year-ends 1969-1973, and September 1974
(In billions of dollars)**

<u>End of</u>	<u>Held at FRBNY</u>	<u>Held in "Street"</u>	<u>Grand Total</u>
1969	6.9	0.5	7.4
1970	16.0	1.4	17.4
1971 <u>b/</u>	43.1	1.0	44.1
1972	50.8	1.9	52.7
1973	52.0	1.0	53.0
8/31/74	53.2	0.7	53.9
9/30/74	53.4	n.a.	n.a.

a/ Excludes holdings of international and regional institutions which totalled \$1.2 billion at the end of 1973. Also excludes holdings of Federal Agency securities, only holdings at this Bank are known: \$0.9 billion for foreign official and \$2.7 billion for international and regional. Also excludes \$0.3 billion of Treasury securities held under repurchase agreements as of September 30, 1974, and \$0.7 billion as of August 31, 1974.

b/ Nonmarketable Treasury issues denominated in foreign currencies were revalued. The figures given here are at the new valuation. Holdings at FRBNY for this date at the old valuation were \$42.4 billion. ("Street" holdings were not affected.)

n.a. -- not available.

Table 5

Holdings of Federal Agency Securities by
Foreign Accounts at FRBNY
(amounts in billions of dollars)

End of Calendar Period	Agency Securities Outstanding ^{a/}	Held by Foreign Official Accounts at FRBNY	
		Amount ^{b/}	Percent of Outstanding
1969	\$44.4	n.a.	n.a.
1970	51.4	\$.021	.04
1971	52.7	.002	.004
1972	59.1	.268	.45
1973	77.0	.862	1.12
8/31/74	87.5	1.048	1.20
9/30/74		1.091	

^{a/} Federal agencies and Federally sponsored private agencies.

^{b/} Excludes participations in Export-Import Bank loans in the following amounts (in billions of dollars):

1970	\$.255
1971	.400
1972	.349
1973	.454
8/31/74	.447
9/30/74	.447

Also excludes securities held under repurchase agreements.

Table 6

Holdings of Bankers' Acceptances by
Foreign Accounts at FRBNY
(amounts in billions of dollars)

<u>End of Calendar Period</u>	<u>Bankers' Acceptances Outstanding</u>	<u>Held by Foreign Official Accounts at FRBNY</u>	
		<u>Amount</u>	<u>Percent of Outstanding</u>
1969	\$ 5.451	\$.146	2.68
1970	7.058	.250	3.54
1971	7.889	.255	3.23
1972	6.898	.179	2.59
1973	8.892	.581	6.53
8/31/74	16.167	1.202	7.43
9/30/74	16.035	1.459	9.10

Table 7

Foreign Official Holdings of Bankers' Acceptances and U.S. Government Agency Securities at FRBNY^{a/}

(In millions of dollars)

<u>As of end of</u>	<u>Bankers' Acceptances</u>	<u>U.S. Government Agency Securities</u> ^{b/}	<u>Total</u>
1969	145.9	n.a.	n.a.
1970	250.1	21.0	271.1
1971	254.5	2.3	256.8
1972	179.0	267.8	446.8
1973	581.1	862.4	1,443.5
Aug. 1974	1,202.3	1,047.7	2,250.0
Sept. 1974	1,458.5	1,091.1	2,549.6

n.a. - Not available

^{a/} Holdings of bankers' acceptances and U.S. Government Agency securities in the "Street" are not known for any of these dates. The Treasury collects periodic surveys of "Other short-term liabilities to foreigners." Foreign holdings of bankers' acceptances are shown in the total. However, separate data are not included in these surveys of U.S. Government Agency issues. Foreign holdings of long-term agency issues in the "Street" also are not available.

^{b/} Excludes foreign holdings of any Ex-Im Bank participation certificates. Includes holdings of Ex-Im Bank debentures. Also excludes U.S. Government Agency issues held under repurchase agreements.

Table 8

Outright System Transactions
in Treasury and Agency Securities^{1/}

(amounts in billions of dollars)

	<u>1969</u>	<u>1972</u>	<u>1973</u>	<u>1974</u> (8 mos.)
Transacted with:				
Dealer Market	6.4	9.4	7.3	5.8
Foreign	11.0	9.5	15.4	8.9
Treasury ^{2/}	<u>1.8</u>	<u>0.6</u>	<u>2.6</u>	<u>2.9</u>
	19.2	19.5	25.3	17.6

^{1/} Excluding direct acquisitions of special certificates of indebtedness with the Treasury.

^{2/} Redemptions of maturing Treasury issues.

Table 9

System Transactions in Government and Federal Agency Securities
(in millions of dollars)

Inter-meeting period ending:	<u>System transactions with foreign accounts</u>		<u>System transactions in the market</u>		
	<u>Treasury Bills</u>		<u>Bill Sales</u>	<u>Purchases</u>	
	<u>Purchases</u>	<u>Sales</u>		<u>Tr. Bills</u>	<u>Coupons & Agencies</u>
<u>1974</u>					
1/22	1,376.4	335.2	-	255.0	498.0
2/20	1,181.7	-	-	140.8	-
3/19	-	683.7	36.6	-	-
4/16	611.6	286.2	-	348.2	359.9
5/21	551.2	100.0	-	952.7	532.4
6/18	245.0	293.7	299.5	100.0	407.5
7/16	574.5	360.4	-	289.0	782.4
8/20	976.7	477.7	-	-	588.6
9/11	321.2	1,041.7	-	922.4	237.9
10/15	422.0	397.5	-	589.6	383.2
Cumulative Totals	<u>6,260.3</u>	<u>3,976.1</u>	<u>336.1</u>	<u>3,597.7</u>	<u>3,789.9</u>

Note: Dates listed are the meeting dates of the Federal Open Market Committee

Table 10

Outright Foreign Transactions
in Treasury and Agency Securities

(amounts in billions of dollars)

	<u>1969</u>	<u>1972</u>	<u>1973</u>	<u>1974</u> (8 mos.)
Transactions with:				
Dealer Market	17.6	25.6	29.5	16.9
System	11.0	9.5	15.4	8.9
Other Foreign ^{1/}	<u>6.7</u>	<u>21.9</u>	<u>28.8</u>	<u>29.6</u>
	35.3	57.0	73.8	55.4

^{1/} Includes small amount of transactions with the Treasury.