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Statement by

J. Charles Partee

Member, Board of Governors of the Federal Reserve System

before the

Subcommittee on Domestic Monetary Policy

of the

Committee on Banking, Finance and Urban Affairs

U.S. House of Representatives

March 10, 1983

I am pleased to appear today to testify about the Federal Reserve's operations under section 105(b) of the Monetary Control Act of 1980. This amendment of section 14 of the Federal Reserve Act authorizes the Federal Reserve to invest its holdings of foreign currencies arising from foreign-exchange operations in interest-bearing obligations of foreign governments. Such investment authority was needed in order to enable the Federal Reserve to earn interest on its holdings of foreign currencies acquired through exchange-market intervention at rates of return comparable to those prevailing in the market. Before passage of the Act, our ability to earn market-related rates had been restricted by limitations on the availability of suitable investment outlets in foreign countries. We estimate that the annual rate of earnings on our current holdings of foreign currencies is about $32 million greater than it would have been without the expanded investment authority. Since the Federal Reserve turns over essentially all of its net earnings to the Treasury, the authority contained in the Act is of commensurate value to the taxpayer. The only use we have made of the investment authority has been to invest foreign-currency holdings arising from our foreign-exchange operations, and we believe that is the only use compatible with the purpose and legislative history of the provision.

Section 105(b) also expanded the list of assets that may be used as collateral for Federal Reserve notes to include all the assets that may be purchased by the Federal Reserve under section 14 of the Federal Reserve Act. Therefore, both the new foreign-currency investments and the foreign currencies held under our former section 14 authority became eligible for use as collateral for Federal Reserve notes.

By way of background to a more detailed description of the Federal Reserve's use of its authority under section 105(b), I should note that significant Federal Reserve holdings of foreign currencies are relatively recent in origin. They arose as a result of active intervention in foreign-exchange markets by the Treasury and Federal Reserve during the period between November 1978 and April 1981. Federal Reserve holdings on January 31, 1983 of $5.3 billion equivalent in foreign assets were chiefly the result of our own intervention activities and of our warehousing for the U.S. Treasury of $1.1 billion equivalent of foreign currencies. (Warehousing is a procedure whereby the Federal Reserve buys the currencies spot from the Treasury and simultaneously resells them forward to the Treasury at the same exchange rate.) Accumulated interest earnings on the assets are also included in the total.

As Federal Reserve holdings of foreign currencies — primarily German marks, Swiss francs, and Japanese yen — increased, the limited investment opportunities available to us under the Federal Reserve Act constrained our ability to invest our holdings at market-related rates of return. As a practical matter, the only available outlets were deposits or forward transactions with foreign central banks and the Bank for International Settlements, since the Federal Reserve Act did not explicitly authorize purchase of government debt instruments. For their part, the foreign central banks were in some cases legally prohibited from paying interest on deposits. Other facilities they could offer us did not always yield returns equal to those on high-quality, liquid instruments in the market.

Section 105(b)(2) of the Monetary Control Act of 1980 amended the Federal Reserve Act to provide that the Federal Reserve may buy and sell obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof. The sole purpose of including this provision in the Act was to overcome the barriers I have just noted, thereby enhancing the Federal Reserve's ability to earn a competitive return on its assets arising out of foreign-currency operations. The legislative history of the Act is very clear on this point. In testimony before the Senate Banking Committee on September 26, 1979, Chairman Volcker stated that the purpose of the provision was to enable the Federal Reserve to invest its holdings of non-interest earning foreign currencies in interest bearing obligations. On March 27, 1980, during the Senate's consideration of the Monetary Control Act, Senator Proxmire indicated that the purpose of the authority to purchase obligations of foreign governments is "to provide a vehicle whereby such foreign currency holdings could be invested in obligations of foreign governments and thereby earn interest. This authority would be used only to purchase such obligations with foreign currencies balances acquired by the Federal Reserve in the normal course of business." Copies of these statements are attached as Annex I for your information.

Further restrictions on the use of the new investment authority were imposed by the Federal Open Market Committee, which authorizes Federal Reserve open market operations. At its annual review of continuing authorizations and directives on March 31, 1981, the FOMC amended its authorization for foreign-currency operations to provide that investments of foreign currency balances "shall be in liquid form and generally have no more than 12 months remaining to maturity." As indicated by the record of FOMC policy actions, this limitation applies to all Federal Reserve investments of foreign-currency holdings, including specifically those made under section 105(b)(2). (Copies of FOMC foreign-currency authorizations and directives for 1980, 1981, and 1982, and an excerpt from the March 1981 record of FOMC policy actions, all of which are published in the Board's Annual Report, are attached as Annex II.)

As noted in the authorizations, the FOMC has limited the Federal Reserve's authority to buy, sell, and hold foreign currencies by specifying 14 currencies. Since the investment authority under section 105(b)(2) applies only to foreign currencies acquired in the course of normal foreign-exchange operations, this limitation also specifies the countries whose obligations we are empowered to acquire under that section. The list of eligible currencies has always comprised only currencies of those countries with whose central banks the Federal Reserve has reciprocal-currency or "swap" arrangements. No country has been added to that list since 1967.

In light of the clear legislative history of section 105(b)(2), including Chairman Volcker's 1979 testimony on behalf of the Board, the further restrictions imposed by the FOMC, and the limited list of currencies that have traditionally been eligible for Federal Reserve purchase and sale, I believe that there are ample safeguards to prevent section 105(b)(2) from being used by the Federal Reserve as a basis for assisting foreign governments in financial difficulties.

The Federal Reserve first invested in debt obligations of a foreign government in October 1980. Renewals of maturing investments and additional purchases have been made at various times since then. The only holdings of currencies we have invested in this way are German marks, Swiss francs, and Japanese yen — a small subset of the eligible list of currencies — all representing amounts obtained through exchange-market operations.

A summary of our transactions in foreign debt obligations between October 1980 and January of this year is attached as Annex III. Our investments of foreign currencies in obligations of foreign governments have generally been made with the understanding between the Federal Reserve and foreign authorities that the details of our transactions will not be made public. In view of these undertandings, the table provides data on the average size of our transactions in all currencies during three-month intervals since October 1980 and the average period securities purchased were held in our portfolio.

As indicated in the table, Federal Reserve investments made under the authority of section 105(b)(2) and still outstanding totalled $1.4 billion equivalent on January 31. They are in short-term obligations of or guaranteed by the governments of Germany, Japan, and Switzerland, denominated in the currencies of those countries. Most of the rest of the $5.3 billion equivalent of Federal Reserve holdings are also German marks, Swiss francs, and Japanese yen, and they are held at the central banks that issue those currencies and the BIS in investments that yield a market-related rate of return. In addition, the Federal Reserve holds Mexican pesos acquired in connection with the Bank of Mexico's drawing on the $325 million swap arrangement with the Federal Reserve that was put in place in August 1982 in parallel with facilities provided by the U.S. Treasury and the Bank for International Settlements. The peso holdings are invested in an interest-bearing account at the Bank of Mexico. When the swap drawing is unwound, the pesos will be exchanged with the Mexican central bank for dollars at the same rate of exchange at which they were acquired. This traditional procedure under the swap arrangements was also followed as the Bank of Mexico repaid in full the $700 million swap drawing provided directly by the Federal Reserve last August.

Turning to the use of Federal Reserve investments in foreign assets as collateral for Federal Reserve notes, this matter is mainly technical in nature, and details of our procedures are provided in the attached note. Under section 16 of the Federal Reserve Act, each Reserve Bank is obligated to designate as collateral a portion of its assets equal in value to the notes it individually has issued. Since the notes themselves (also under section 16) are first and paramount liens on all the assets of the Reserve Bank, not just the designated collateral, and are moreover obligations of the United States, the collateral designated in no way limits the security of noteholders. Eligible collateral specified in the Federal Reserve Act before passage of the Monetary Control Act of 1980 consisted of gold certificates, Special Drawing Rights certificates, U.S. government and agency obligations, and small amounts of certain other Federal Reserve assets. While the System as a whole has always had sufficient eligible collateral for the aggregate of all Reserve Banks' notes in circulation, the distribution of the collateral among the Reserve Banks is not necessarily in proportion to their note liabilities. The Reserve Banks issue notes to meet the demand for currency in their region, while their holdings of U.S. government securities depend on an allocation of System holdings and flows of funds between Federal Reserve districts.

It was foreseen that the Monetary Control Act would lower reserve requirements on depository institutions' liabilities, and the Federal Reserve would have to sell U.S. government securities in order to eliminate the excess liquidity that would otherwise be provided to the financial system.

Therefore, it seemed to us entirely possible that some Reserve Banks might occasionally experience a shortage of assets eligible as collateral for their note issues. To prevent this development, section 105(b)(1) was added to the Monetary Control Act. Besides eliminating the Reserve Banks' previous obligation to designate collateral for notes still in their own vaults, this section enlarged the list of eligible collateral to encompass all foreign-currency investments -- both those the Federal Reserve was newly authorized to purchase under section 105(b)(2) and those it could purchase under previous authority.

As indicated on the table attached as Annex IV, four Reserve Banks have used foreign-currency assets as collateral on various occasions. No specific instruments are earmarked in connection with such designation of collateral: the amounts used represented undivided portions of each Bank's participation in the System's foreign-currency account. At most, $515 million equivalent of our investments were used at any one time; generally the amounts were much smaller. New procedures are now under study for collateralization of Federal Reserve note liabilities. These procedures, if they can be implemented, would reduce sharply, if not eliminate, any foreseeable need to use foreign-currency assets as collateral for issuance of Federal Reserve notes.

Technical Note on Collateralization
of Federal Reserve Notes

Section 16 of the Federal Reserve Act (as amended) requires that Federal Reserve notes issued into circulation by Reserve Banks be fully collateralized. A Reserve Bank's notes held in its own vaults do not require collateral. Assets eligible for use as collateral are specified by section 16 as follows: notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of the Federal Reserve Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of the Act, or bankers' acceptances purchased under the provisions of section 14, or gold certificates, or Special Drawing Right certificates, or any obligations which are direct obligations of, or fully guaranteed as to principal and interest by, the United States, or any agency thereof, or assets that Federal Reserve banks may purchase or hold under section 14 of the Act.

Each day, an employee at the Board of Governors in Washington representing the Federal Reserve Agent at each Reserve Bank, insures that sufficient collateral is designated to meet each Reserve Bank's note liabilities. Eligible assets are used in the following order: all gold and Special Drawing Rights certificates and, to the extent available, sufficient U.S. government and agency securities to meet full collateral requirements. Only if a Reserve Bank requires additional collateral are foreign-currency assets used. At Annex IV is a list of dates on which foreign currencies were used in order to collateralize fully note liabilities at individual Reserve Banks.

On a Systemwide basis, sufficient collateral is available without use of foreign-currency assets. However, using only gold and SDR certificates and their government and agency securities, individual Reserve Banks may experience a shortfall if seasonal increases in their notes outstanding (for example, at Christmas or during vacation periods) happen to coincide with reductions in holdings of government securities resulting from the conduct of monetary policy. In December 1982, for example, it was necessary to use foreign-currency investments to collateralize some Banks' note liabilities 27 times, even though Systemwide excess collateral, excluding foreign-currency investments, averaged approximately $14 billion on a daily basis.

Section 16 of the Federal Reserve Act further stipulates that, in addition to the eligible assets designated as collateral for note liabilities on a daily basis, Federal Reserve notes issued to each Reserve Bank become a first and paramount lien on all the assets of the Reserve Bank and are also obligations of the U.S. government.

Annex I

Legislative History of Section 105(b)
of the Monetary Control Act of 1980

1. Testimony by Chairman Volcker to Senate Banking Committee, September 26, 1979

2. Statement by Senator Proxmire, March 27, 1980

FEDERAL RESERVE MEMBERSHIP

HEARINGS

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

Amendment No. 398 to S. 85

S. 353

AND

H.R. 7

TO FACILITATE THE IMPLEMENTATION OF MONETARY POLICY AND TO PROMOTE COMPETITIVE EQUALITY AMONG DEPOSITORY INSTITUTIONS

SEPTEMBER 26 AND 27, 1979

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CONTENTS

WEDNESDAY, SEPTEMBER 26, 1979

Open access and pricing of System services likely will induce major changes in existing banking relationships. It may have differential effects on large and small, or city and rural institutions. Moving too precipitously to put this new system into place could cause disruptions in banking markets. Consequently, I would urge that the pricing provision allow some flexibility in timing and implementation. Moreover, it should be clear that the Federal Reserve need not precisely match costs and revenues for every service. Indeed, the Board questions whether a charge for the receipt and disbursement of currency is appropriate at all. The Government might normally be expected to provide that service, and in any event, the Treasury already earns some $7 billion per year from the provision of currency through securities held by the Federal Reserve as collateral.

COLLATERAL FOR FEDERAL RESERVE NOTES

A technical problem regarding collateral against Federal Reserve notes does arise in the bill. Under existing law, currency issued by the Federal Reserve must be secured by certain assets of the Federal Reserve specified in the Federal Reserve Act. If no changes were to be made in this requirement, the reserve reductions implied by the bills before you could be technically unworkable for they might result in insufficient amounts of government securities and other eligible financial assets to meet the collateral requirements against these notes. In mid-1979, for instance, collateral in excess of currency was only $13 billion. In terms of deposits outstanding at that time, balances at Federal Reserve Banks would be reduced about $24 billion under H.R. 7 and roughly $14 billion under S. 85 without the reserve requirement on time deposits. The reduction in government security holdings in the Fed portfolio that would have to accompany the decline in reserve requirements would leave the System with too few eligible securities to meet the legal collateral requirements.

S. 85 would meet this collateral problem by permitting all financial assets held by Federal Reserve Banks to stand behind the Federal Reserve's currency liability and by eliminating the requirement to collateralize notes remaining in the vaults of Federal Reserve Banks. This approach, while clearly meeting the need, was rejected by the House apparently on the grounds that it might open the way to the Federal Reserve acquiring a broader range of assets. To meet that objection, assets eligible for collateralizing currency might be confined to certain enumerated market-type assets that may already be held by the Federal Reserve.

I would suggest adding to the present list only assets acquired abroad arising from time to time out of our foreign currency operations—a relatively small but fluctuating amount—while removing the requirements for collateral against notes held by the Federal Reserve itself. In that connection, the Federal Reserve Act already permits us to hold foreign bank deposits and bills of exchange; it would be helpful to us operationally if short-term foreign government securities could be added to our authorized holdings—an omission at the time of the original Federal Reserve Act when such securities were not widely available.

THE PHASE-IN

S. 85 and H.R. 7 differ substantially in phase-in time for the application of reserves to transaction balances of nonmember institutions: 4 years for the former, 10 years for the latter. The Board feels the S. 85 approach—which itself provides considerable time, is more in keeping with the purposes of the legislation, particularly for institutions newly entering or rapidly expanding transaction account business. At the same time, we are aware that this Committee and the Congress may be in a better position to appraise the equities of particular situations and develop an appropriate compromise.

EFFECT ON TREASURY REVENUE

There is understandable sensitivity to the implication for Treasury revenue from alternative monetary improvement plans, particularly in these inflationary times when the budget is under pressure. An attachment to this statement shows the revenue input from H.R. 7 and S. 85. As can be seen, the bill acceptable to the House had a cost of around $300 million, using 1977 data. S. 85 would not cost the Treasury any revenue, but at the cost of increasing the reserve burden of many depository institutions. Without a reserve requirement on time deposits, as I have suggested, the revenue loss would be significantly smaller than in the House bill.

I would emphasize these calculations are artificial because, contrary to all expectations, they assume no revenue loss from rapid attrition of Federal Reserve membership, if no bill is passed. The net drain on Treasury revenues from H.R. 7 or S. 85 as modified would be quite moderate, if there were any drain at all, after account is

STATEMENT BY SENATOR PROXMIRE
(126 Cong. Rec. S 3167-8 (March 27, 1980))

COLLATERAL FOR FEDERAL RESERVE NOTES

The Federal Reserve is required by the Federal Reserve Act to maintain collateral for all Federal Reserve notes. This collateral consists of gold certificates, special drawing rights certificates, eligible paper and U.S. Government and agency securities. The last category is by far the largest. However, a portion of the Federal Reserve's securities portfolio of U.S. Government and agency securities represent purchases made with reserves deposited by member banks. Since the Monetary Control Act would release about $15 billion in reserves, a comparable amount of securities would need to be sold. This would reduce the amount of collateral available for Federal Reserve notes.

The Monetary Control Act changes the provision for collateralization of Federal Reserve notes in order to handle the problem created by the reduction in required reserves. The act eliminates the current requirement that collateral must be provided for Federal Reserve notes held in reserve bank vaults. The act also expands the types of Federal Reserve accounts that can be used to collateralize Federal Reserve notes. It also authorizes the Federal Reserve to purchase and sell obligations issued by foreign governments.

Under existing statutory authority, the Federal Reserve, in the course of its normal activities in the foreign exchange markets from time to time acquires balances in foreign currencies. Under present arrangements there is no convenient way in which foreign currency balances held by the Fed can be invested to earn interest.

The Monetary Control Act would amend section 14 of the Federal Reserve Act to provide a vehicle whereby such foreign currency holdings could be invested in obligations of foreign governments and thereby earn interest. This authority would be used only to purchase such obligations with foreign currencies balances acquired by the Federal Reserve in the normal course of business.

Annex II

Documents of the Federal Open Market Committee

1. Authorization for Foreign Currency Operations in Effect January 1, 1980
2. Foreign Currency Directive in Effect January 1, 1980
3. Authorization for Foreign Currency Operations in Effect January 1, 1981
4. Foreign Currency Directive in Effect January 1, 1981
5. Excerpt from Record of FOMC Policy Actions, March 1981
6. Authorization for Foreign Currency Operations in Effect January 1, 1982
7. Foreign Currency Directive in Effect January 1, 1982

67th Annual Report 1980

Board of Governors of the Federal Reserve System

Part 2 Records, Operations, and Organization

bearing deposits included in M-2 remained strong, as a rise in net flows into time deposits at commercial banks in response to increased yields offset a contraction in savings deposits. Inflows of deposits at nonbank thrift institutions slowed somewhat. Flows into money market mutual funds accelerated. Growth of commercial bank credit moderated in October; nevertheless, banks increased their reliance on the negotiable, large-denomination CD's and other managed liabilities that became subject to the marginal reserve requirement in the statement week beginning October 11. Both short- and long-term market interest rates have risen sharply on balance since the early October announcement of the System's policy actions, although most recently rates have declined; mortgage interest rates have increased substantially further.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on July 11, 1979, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent respectively, the same ranges that had been established in February. The range for M-1 had been established originally on the basis of an assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year. It now appears that expansion of such accounts will dampen growth by about 1½ percentage points over the year; thus after allowance for the deviation from the earlier estimate, the equivalent range for M-1 is now 3 to 6 percent. The associated range for bank credit is 7½ to 10½ percent. The Committee anticipates that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts. These ranges will be reconsidered at any time as conditions warrant.

In the short run, the Committee seeks to restrain expansion of reserve aggregates to a pace consistent with deceleration in growth of M-1, M-2, and M-3 in the fourth quarter of 1979 to rates that would hold growth of these monetary aggregates over the whole period from the fourth quarter of 1978 to the fourth quarter of 1979 within the Committee's longer-run ranges, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 11½ to 15½ percent.

It it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Authorization for Foreign Currency Operations

In Effect January 1, 1980

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, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Treasury, with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings	Italian lire
Belgian francs	Japanese yen
Canadian dollars	Mexican pesos
Danish kroner	Netherlands guilders
Pounds sterling	Norwegian kroner
French francs	Swedish kronor
German marks	Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding $1.0 billion, unless a larger position is expressly authorized by the Committee. [Note. An overall open position not exceeding $8.0 billion had been expressly authorized by the Committee on December 19, 1978, and was in effect as of January 1, 1980.] For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	700
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. Currencies to be used for liquidation of System swap commitments may be purchased from the foreign central bank drawn on, at the same exchange rate as that employed in the drawing to be liquidated. Apart from any such purchases at the rate of the drawing, all transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks of System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S.

government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported daily to the Foreign Currency Subcommittee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other members of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

Foreign Currency Directive

In Effect January 1, 1980

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

68th Annual Report 1981

Board of Governors of the Federal Reserve System

Part 2 Records, Operations, and Organization

the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M1-A, M1-B, and M2 on the order of ½ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. These ranges will be reconsidered as conditions warrant.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M1-A, M1-B, and M2 over the period from September to December at annual rates of about 2½ percent, 5 percent, and 7¾ percent respectively, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 13 to 17 percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Authorization for Foreign Currency Operations

In Effect January 1, 1981

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, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Treasury, with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings	Italian lire
Belgian francs	Japanese yen
Canadian dollars	Mexican pesos
Danish kroner	Netherlands guilder
Pounds sterling	Norwegian kroner
French francs	Swedish kronor
German marks	Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding $1.0 billion, unless a larger position is expressly authorized by the Committee. [Note. An overall open position not exceeding $8.9 billion had been expressly authorized by the Committee on December 19, 1978, and was in effect as of January 1, 1981.] For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:
Any changes in the terms of existing

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	700
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	500[1]
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

1. Pursuant to an action taken by the Committee on May 20, 1980, the amount of the reciprocal currency arrangement with the Bank of Sweden was raised to $500 million, effective May 23, 1980, for a period of one year, after which it will revert to its former level of $300 million.

swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. Currencies to be used for liquidation of System swap commitments may be purchased from the foreign central bank drawn on, at the same exchange rate as that employed in the drawing to be liquidated. Apart from any such purchases at the rate of the drawing, all transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks of System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported daily to the Foreign Currency Subcommittee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other members of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager for Foreign Operations, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

Foreign Currency Directive

In Effect January 1, 1981

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

than banks demanded. Indeed, nonborrowed reserves were estimated to have declined at an annual rate of about 12 percent in April. In adjusting to the constrained availability of reserves, banks had a negative excess reserve position on the average in the latter part of April and increased borrowings from the discount window sharply in late April and early May; borrowings averaged about $2.4 billion in the two weeks ending May 6. The federal funds rate, which had been in a 15 to 15½ percent range for most of April, rose considerably in late April and early May as banks intensified their efforts to acquire reserves; trading in recent days had been in a range of 17 to 20 percent. Effective May 5, the basic Federal Reserve discount rate was raised from 13 to 14 percent and the surcharge on frequent borrowing by large depository institutions was increased from 3 to 4 percentage points, placing the surcharge rate at 18 percent.

In the telephone conference on May 6, the Committee agreed that in the brief period before the next regular meeting scheduled for May 18, the reserve path would continue to be set on the basis of the short-run objectives for monetary growth established at the March 31 meeting. It was noted that for a time actual money growth might be high relative to those objectives in view of the recent performance of the monetary aggregates. The Committee recognized that short-term market interest rates might well fluctuate around levels prevailing in recent days and that the federal funds rate might continue to exceed the upper end of the range indicated for consultation at the previous meeting. The Committee agreed to consult further if necessary to maintain adequate restraint on the monetary and credit aggregates.

On May 6, the Committee agreed that through the period before the next regular meeting the reserve path should continue to be set on the basis of the short-run objectives for monetary growth established at its meeting on March 31, recognizing that the federal funds rate might continue to exceed the upper end of the range indicated for consultation at the March 31 meeting.

Votes for this action: Messrs. Volcker, Boehne, Boykin, Corrigan, Gramley, Rice, Schultz, Solomon, Mrs. Teeters, and Mr. Winn. Votes against this action: None. Absent: Messrs. Partee and Wallich. (Mr. Winn voted as an alternate member.)

2. Review of Continuing Authorizations

At this, the first regular meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1981, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the authorization for domestic open market operations, the foreign currency directive, and the procedural instructions with respect to foreign currency operations in the forms in which they were currently outstanding.

Votes for these actions: Messrs. Volcker, Boehne, Boykin, Corrigan, Partee, Rice, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, and Winn. Votes against these actions: None. Absent: Messrs. Gramley and Mayo. (Mr. Winn voted as alternate for Mr. Mayo.)

In reviewing the authorization for domestic open market operations, the Committee took special note of paragraph 3, which authorizes the Reserve Banks to engage in the lending of U.S. government securities held in the System Open Market Account under such instructions as the Committee might specify from time to time. That paragraph had been added to the authorization on October 7, 1969, on the basis of a judgment by the Committee that such lending of securities was reasonably necessary to the effective conduct of open market operations and to the implementation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager for Domestic Operations that the lending activity in question remained reasonably necessary and that, accordingly, the authorization should remain in effect subject to annual review.

3. Authorization for Foreign Currency Operations

The Committee adopted several amendments to the authorization for foreign currency operations to simplify and clarify its instructions to the Federal Reserve Bank of New York and to bring the document up to date in light of recent developments. None of these amendments was intended as a change in policy orientation.

As adopted in December 1976, paragraph 1D authorized the Federal Reserve Bank of New York, for the System Open Market Account, to maintain an overall open position in all foreign currencies not to exceed $1.0 billion, unless a larger position was expressly authorized by the Committee. The language suggested that authorizations of larger positions would be temporary. On December 19, 1978, the Committee had authorized an open position of $8 billion (shown as a footnote in the authorization), which had remained in effect since that date. At this meeting, the Committee voted to incorporate the long-standing limit of $8 billion in the text of paragraph 1D.

Paragraph 3 specifies that all transactions in foreign currencies be at prevailing market rates except in the case of certain transactions with foreign central banks. At this meeting, the Committee voted to delete a reference to an exception that is no longer relevant and to add language spelling out circumstances in which transactions at nonmarket rates may be undertaken.

Paragraph 5 is concerned with the investment of System holdings of balances of foreign currencies. In view of a provision in the Monetary Control Act of 1980 allowing the System to invest in securities issued or fully guaranteed by foreign governments, the Committee voted to limit investment of foreign currency holdings to liquid forms and generally to instruments having no more than 12 months remaining to maturity.

The Committee also amended paragraph 6 to provide that all operations pursuant to the preceding paragraphs be reported promptly, rather than on a daily basis, to the Foreign Currency Subcommittee.

As amended, paragraphs 1D, 3, 5 and 6 read as follows:

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, and in conformity with such procedural instructions as the Committee may issue from time to time:

* * * * *

D. To maintain an overall open position in all foreign currencies not exceeding $8.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at nonmarket exchange rates.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager for Foreign Operations for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

Votes for these actions: Messrs. Volcker, Boehne, Boykin, Corrigan, Partee, Rice, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, and Winn. Votes against these actions: None. Absent: Messrs. Gramley and Mayo. (Mr. Winn voted as alternate for Mr. Mayo.)

4. Agreement with Treasury to Warehouse Foreign Currencies

At its meeting on January 17–18, 1977, the Committee had agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies—that is, to make spot purchases of foreign currencies from the Exchange Stabilization Fund and simultaneously to make forward sales of the same currencies at the same exchange rate to the ESF. Pursuant to that agreement, the Committee had agreed that the Federal Reserve would be prepared to warehouse for the Treasury or for the ESF up to $5 billion of eligible foreign currencies. At this meeting the Committee reaffirmed the agreement on the terms adopted on March 18, 1980, with the understanding that it would be subject to annual review.

AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS
In Effect January 1, 1982

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, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or foward transactions on the open market at home and abroad, including transactions with the U. S. Treasury, with the U. S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding $8.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	
Regular	700
Special	325
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at non-market exchange rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U. S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager for Foreign Operations for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

FOREIGN CURRENCY DIRECTIVE
In Effect January 1, 1982

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U. S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

Annex III

Federal Reserve Purchases
of Foreign Government Debt
October 1980 - January 1983
(millions of dollars equivalent)

	3 months ending			End of period
		Average Purchase		
	Number of transactions	Size	Months Held 1/	Amount outstanding
1981				
January 2/	7	$194.0	1.67	$ 62
April	12	171.1	3.88	1488
July	12	236.2	4.53	2246
October	12	141.7	2.22	2273
1982				
January	14	73.3	3.16	1306
April	13	94.9	2.98	1474
July	12	110.3	2.99	1137
October	17	88.8	2.99	1254
1983				
January	11	138.9	1.72 3/	1367

1/ Weighted by transaction size

2/ Four-month period

3/ Through January

Annex IV

Days on Which Foreign Currency Assets Have Been Used as Collateral for Federal Reserve Notes By Specific Reserve Bank Issuers (millions of dollars equivalent)

Federal Reserve Bank of Boston

1981	
Apr. 21	$ 12
24	38
28	17
May 5	18
7	37
12	64
13	97
27	9
June 9	45
10	109
23	1
30	27
July 1	18
10	49
13	49
14	76
Oct. 7	7
Nov. 17	51
18	45
24	20
27	31
30	57

1981	
Dec. 1	$ 82
2	64
3	28
4	36
7	31
8	5
9	55
15	8
16	45
18	15
21	104
22	71
23	106
24	102
28	121
29	73
30	22

1982	
Jan. 6	$ 88
13	31
19	8
Mar. 8	9
9	77
10	90
Apr. 7	93
13	25
14	27
June 30	39
July 6	43
7	81
8	7
Nov. 9	15
10	18
11	18
15	25
16	5

Federal Reserve Bank of Richmond

1981	
Oct. 5	8
6	106
7	196
1982	
Mar. 4	125
5	86
8	188
9	216
10	235
31	64

1982	
Apr. 6	246
7	239
13	42
14	1
July 7	27

Federal Reserve Bank of Kansas City

1982

Apr.	6	$ 76
	7	183
	12	31
	14	51
Sept.	15	17
	29	11
Oct.	6	121
	8	40
	11	40
	12	52
	13	69
	14	39
	20	50
	21	10
	28	18
	29	14
Nov.	1	30
	2	25
	3	66
	4	38
	5	91
	8	42
	9	75
	10	60
	11	60
	15	47
	16	2
	18	51
	19	17
	23	23
	24	107
	25	107
	26	82
	29	3

1982

Dec.	1	$ 89
	2	82
	3	13
	6	75
	7	213
	8	191
	9	108
	10	14
	13	77
	14	45
	15	10
	16	66
	17	44
	21	85
	22	153
	23	133
	24	134
	27	87
	28	187
	29	205
	30	143
	31	107

1983

Jan.	3	$ 74
	5	4
	6	49
	7	96
	10	57
	11	61
	12	46

Federal Reserve Bank of Philadelphia

1982

Dec.	8	30
	22	21
	28	36
	29	57
	30	12