

CONFIDENTIAL (FR)

February 18, 1966

To: Federal Open Market Committee  
From: The Secretariat

Subject: Proposed reorganization  
of instruments governing  
foreign currency opera-  
tions.

*Guarded*

The purpose of this memorandum is to propose a reorganization of the Committee's instructions on foreign currency transactions. At present these instructions are contained in three instruments: (1) Authorization regarding open market transactions in foreign currencies, (2) Guidelines for System foreign currency operations, and (3) Continuing authority directive with respect to foreign currency operations.

It is recommended that these three instruments be replaced by two new ones, primarily for the sake of clarifying the instructions and simplifying Committee actions in amending them from time to time. Attached are (1) drafts of the proposed new instruments, entitled "Authorization for System foreign currency operations" and "Foreign currency directive;" and (2) copies of the three present instruments with marginal notes indicating the disposition made of each present passage in drafting the new instruments.

This recommendation is one product of the staff's review of System foreign currency operations, undertaken in accordance with the Committee's request at the meeting of November 23, 1965. To help separate the matter of clarification from that of substantive revision it was assumed in developing the proposed new instruments that, for the most part, no changes were to be made in the types and purposes of

-2-

foreign currency operations or in procedural arrangements.<sup>1/</sup> Having the present instructions recast in clearer form, however, should facilitate any substantive changes the Committee decides to make.

Desirability of reorganizing instructions

A review of the Committee's existing instruments for foreign currency operations indicates that they are excessively complex in several respects.

1. There is a great deal of duplication of content. For example, the second paragraph of Section VI of the Authorization reads, "Unless the Bank is otherwise authorized, all transactions shall be at prevailing market rates;" and the fifth paragraph of Section 2 of the Guidelines begins, "The New York Bank shall, as a usual practice, purchase and sell authorized currencies at prevailing market rates. . . ." Again, both Section 4 of the Guidelines and the second paragraph of the directive include lists of circumstances under which forward operations may be undertaken, employing partly similar and partly different language. Other such duplications, or partial duplications, become evident on joint examination of the three documents.

2. Related instructions occur at separated points. For example, the "basic purposes" and "specific aims" of operations, set forth in the second and third sections of the Authorization, would appear to be closely related to the various statements on the circumstances under which transactions are appropriate, contained in the

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<sup>1/</sup> One substantive change, discussed below, is recommended at this time and has been incorporated in the proposed new directive.

-3-

opening paragraphs of Section 2 and 3 of the Guidelines. Again, the first sentence of the Guidelines states that "Until otherwise authorized, the System will limit its holdings of foreign currencies to that amount necessary to enable its operations to exert a market influence;" while the first paragraph of the directive says that ". . . the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed \$150 million equivalent at any one time."<sup>1/</sup>

3. Some of the content seems superfluous because it duplicates other actions of the Committee. For example, the staff position of "Special Manager," established in the first paragraph of Section IX of the Authorization, also is established in Article II, Section V, of the Committee's bylaws. Again, Section I of the Authorization designates the New York Bank to execute transactions pursuant to that instrument for the System Open Market Account, although the Committee selects the Bank to operate the Account at its March organization meeting.

4. Some of the content seems superfluous when compared with the content of the corresponding instruments for domestic operations--the continuing authority directive and the current economic policy directive. For example, it is not considered necessary in the domestic

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<sup>1/</sup> The separation of these two statements might lead to some uncertainty as to whether the amount mentioned in the directive is, in the Committee's judgment, consistent with the purpose described in the Guidelines, or whether holdings are to be limited to the lower of the amounts specified in the directive and described in the Guidelines. The latter interpretation has been used in the proposed new Authorization; see paragraph 1B (2). If the former interpretation is intended, that paragraph might be modified to refer only to the dollar limit.

-4-

instruments (a) to cite statutory authority, as is done in the introduction to the Authorization; (b) to detail the nature of the reports to be made to the Committee and its staff, as in the last 3 paragraphs of Section IX of the Authorization; or (c) to supplement the instructions to the Agent Bank with statements regarding the intentions of the Committee under specified circumstances, as in the second sentence of the first paragraph of the Guidelines.

In principle, redundancy or superfluity of content and imperfect organization do not necessarily lead to difficulties in operations, although there may be some virtue in avoiding them for the sake of public understanding. In the present case, however, recasting the instruments probably would have real advantages for the Committee as well, particularly when substantive changes are to be made in them. Operating with the present instruments, the Committee often has found it necessary to take two actions to accomplish a single substantive objective--either amending two of the instruments or, in the case of increases in the size of swap lines, approving the increase and separately amending one of the dollar limits given in the continuing authority directive. Moreover, on occasion the need for taking a second action in connection with some change has been discovered only some time after one action was taken, with resulting inconsistencies in the interim. In addition to avoiding such problems, clarifying the instructions also probably would facilitate Committee discussions of their content and communication between the Committee and its staff.

-5-

General approach followed

The main objective of the redrafting work was to formulate the essential content of the three present instruments in a clearer and more concise manner. The organizational principle employed was that, to extent feasible, the respective contents of the two proposed instruments should parallel those of the two instruments used for domestic operations. Thus, the new Authorization, like the domestic continuing authority directive, includes all instructions on the types of transactions to be undertaken, dollar limits, and transactions prices. Similarly, the proposed new Foreign currency directive, like the domestic policy directive, sets forth the objectives to be pursued in transactions. Also, the first paragraph of the Foreign currency directive states the basic purposes of operations, analogously to the Committee's statement of "policy" in the first paragraph of the domestic directive; and the remaining material consists of operating instructions to the Account Management, as does the second paragraph of the domestic directive.

Differences in circumstances lead to a certain lack of parallelism in the two cases. Thus, some instructions for which there are no corresponding needs in the domestic area--on investments of foreign currency holdings, and on certain procedural matters--are included in the new Authorization; capsule statements of the economic conditions underlying the objectives described, such as are included in the domestic policy directive, have no counterpart in the proposed Foreign currency directive; and operating instructions are much more detailed than in the domestic case.

-6-

The analogy fails in another respect also: in the domestic area the current policy directive is amended frequently, and the continuing authority directive infrequently. If the Committee's future foreign currency operations have the same general character as those of the past, the proposed Foreign currency directive is likely to be amended less often than the proposed Authorization.

Revisions in language

The language employed in the proposed new instruments generally is based on that of the existing instruments. The kinds of changes made can be determined by comparing passages in the existing instruments on the annotated copies attached with the corresponding passages in the new instruments at the points indicated by the marginal notes. As will be noted, most of the changes are to achieve consistency in format or clarification of sense. The comments below are concerned with the changes of greater importance.

1. A change in substance. When faced with a threat of disorderly conditions, the Special Manager is authorized (by the fourth paragraph of Section 3 of the existing Guidelines) to engage in transactions only after consultation with the Committee or with the members of the Subcommittee designated for that purpose. Experience at the time of the assassination of President Kennedy demonstrated that in a sudden major crisis it may be impossible for the Special Manager to reach all of the members of the Subcommittee in time to obtain authorization for necessary protective operations, although he might have no doubt at all that the required authority would have been

-7-

granted. In paragraph 2C of the proposed new directive the Special Manager is authorized to engage in operations on his own initiative to meet disorderly market conditions, with the requirement that he consult as soon as practicable with the Committee, or in an emergency with the members of the Subcommittee. This instruction is intended to require advance consultation if practicable, but to permit operations if it is not.

2. Repairing omissions. The existing instruments do not specify the individual swap arrangements, although each of them was authorized by formal action of the Committee. There are only general references to the arrangements in the Authorization (Section III (4)) and in the Guidelines (Section 2, paragraphs 3 and 4); and the only reference to the arrangements in the existing directive is the dollar limit on aggregate holdings under them, given in the first paragraph. It is proposed to repair this omission by listing the swap arrangements in paragraph 2 of the new Authorization.<sup>1/</sup> The aggregate limit on holdings would then be redundant, and has been deleted.

Similarly, the purpose for which System drawings under the swap arrangements may be made are not specified in the existing instruments. A brief statement of their purpose has been included in paragraph 3 of the proposed new directive.

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<sup>1/</sup> At the suggestion of the Committee's General Counsel, a clarifying statement has been included to indicate that the foreign banks with which swap arrangements are maintained are among the banks designated by the Board in Regulation N.

-8-

Another addition to reflect actual practice is represented by paragraph 2D of the proposed directive, which authorizes the Special Manager to adjust System balances (within the limits given in the Authorization) "in light of probable future needs for currencies." This paragraph is intended specifically to authorize operations of certain types that have been conducted in the past. For example, recently the Account Management has been buying marks because they were on offer at prices below par, and it appeared desirable to take advantage of the opportunity to acquire a currency likely to prove useful in future operations.

Two further additions--both minor--have been made. One is to add the Bank for International Settlements to the list of institutions with which transactions are authorized, carried over to paragraph 1A of the proposed new Authorization from Section VI of the existing Authorization. The second involves the final item in the list of purposes for which forward operations are authorized, given in the last paragraph of the proposed new directive. This item--"to provide cover for System holdings of foreign currencies"--is intended to apply to the forward side of the authorized covered purchases of sterling.

3. Generalizing statements now applied to spot transactions.

Section 3 of the existing Guidelines is headed "Transactions in Spot Exchange," but language based on the first four paragraphs of this Section (relating to circumstances under which operations are appropriate) has been included in paragraphs 1 and 2 of the proposed new



-9-

directive without limitation to spot transactions. This treatment should have no new implications for operations, because the purposes for which other transactions--swap drawings and forward operations--are authorized are specifically described in paragraphs 3 and 4 of the new directive. The proposed treatment seems desirable because the purposes specified in the passages in question partly overlap those for which other transactions are authorized.

4. Clarifying dollar limits. In the first paragraph of the existing directive a dollar limit of \$150 million is specified for "foreign currencies held as a result of outright purchases." The second paragraph sets a limit of "up to a combined total of \$275 million equivalent" for operations for a list of purposes, all involving forward elements. Of the four purposes mentioned, forward purchases are authorized for one purpose, forward sales for two, and both for one; and for two purposes spot transactions are authorized along with forward. The three remaining paragraphs specify additional dollar limits for described types of operations, all of which also have forward elements.

The manner in which these limits are intended to be applied is not wholly clear from the language of the existing directive. Questions might be raised, for example, as to whether the term "outright purchases" in the first paragraph is intended to cover only spot or also forward transactions; as to the extent of netting permitted under the terms of the second paragraph; and as to whether

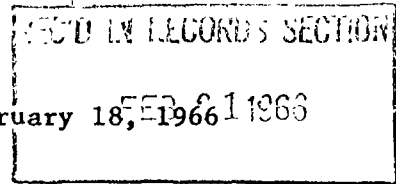
-10-

authorization to assume a commitment for forward sale of a currency includes by implication an authorization to acquire that currency to meet the commitment when due.

For purposes of clarification, the statements regarding dollar limits have been reformulated in paragraphs 1B and 1C of the proposed new Authorization to correspond to the sense in which they have been interpreted by the Special Manager. Paragraph 1B applies to the System's long position; it covers currencies held spot and purchased forward, and includes authorization for such holdings "up to the amounts necessary to fulfill outstanding forward commitments"; other holdings not exceeding the \$150 million limit given in the existing directive's first paragraph<sup>1/</sup>; and covered sterling holdings of up to \$200 million, authorized in the fourth paragraph of the existing directive. Paragraph 1C applies to the System's short position; it includes the \$275 million limit from the second paragraph of the existing directive, as well as the \$100 million limit on transactions for the Stabilization Fund (from the third paragraph) and the \$500 million limit on forward lire commitments (from the fifth paragraph).

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<sup>1/</sup> See also the footnote on page 3 above.



CONFIDENTIAL (FR)

Proposed new Authorization for  
System foreign currency operations

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:

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. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:

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

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

- (1) Currencies held spot or purchased forward, up to the amounts necessary to fulfill outstanding forward commitments;
- (2) Other currencies held spot or purchased forward, up to the amount necessary for System operations to exert a market influence and not exceeding \$150 million equivalent; and

-2-

(3) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to \$200 million equivalent.

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

(1) Commitments to deliver to the Stabilization Fund foreign currencies in which the United States Treasury has outstanding indebtedness, up to \$100 million equivalent;

(2) Commitments to deliver Italian lire, under special arrangements with the Bank of Italy, up to \$500 million equivalent; and

(3) Other forward commitments to deliver foreign currencies, up to \$275 million equivalent.

D. 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.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for System Open Market Account 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

-3-

with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

<u>Foreign Bank</u>	<u>Amount of Arrangement (millions of dollars equivalent)</u>	<u>Period of Arrangement (months)</u>
Austrian National Bank	50	12
National Bank of Belgium	100	12
Bank of Canada	250	12
Bank of England	750	12
Bank of France	100	3
German Federal Bank	250	6
Bank of Italy	450	12
Bank of Japan	250	12
Netherlands Bank	100	3
Bank of Sweden	50	12
Swiss National Bank	150	6
Bank for International Settlements (System drawings in Swiss francs)	150	6
Bank for International Settlements (System drawings in authorized European currencies other than Swiss francs)	150	6

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall be at prevailing market rates and, insofar as is practicable, foreign currencies shall be purchased through spot transactions when rates for those currencies are at or below par and sold through spot transactions when such rates are at or above par, except when transactions at other rates (i) are specifically authorized by the Committee, (ii) are necessary to acquire currencies to meet System commitments, or (iii) are necessary to acquire currencies for the Stabilization Fund, provided that these currencies are resold forward to the Stabilization Fund at the same rate.

4. It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making

-4-

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 accordance with Section 14(e) of the Federal Reserve Act.

6. A Subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board of Governors (or in the absence of the Chairman or of the Vice Chairman of the Board of Governors the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate) is authorized to act on behalf of the Committee when it is necessary to enable the Federal Reserve Bank of New York to engage in foreign currency operations before the Committee can be consulted. All actions taken by the Subcommittee under this paragraph shall be reported promptly to the Committee.

7. The Chairman (and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors) is authorized:

-5-

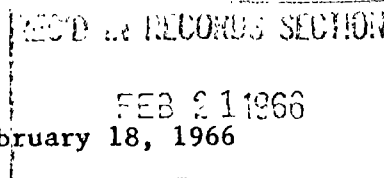
A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities; and

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.



CONFIDENTIAL (FR)

Proposed new Foreign currency directive

1. The basic purposes of System operations in foreign currencies are:
  - A. To help safeguard the value of the dollar in international exchange markets;
  - B. To aid in making the system of international payments more efficient;
  - C. To further monetary cooperation with central banks of other countries having convertible currencies, with the International Monetary Fund, and with other international payments institutions;
  - D. To help insure that market movements in exchange rates, within the limits stated in the International Monetary Fund Agreement or established by central bank practices, reflect the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public; and
  - E. To facilitate growth in international liquidity in accordance with the needs of an expanding world economy, by providing for reciprocal holdings of currencies.
2. Unless otherwise expressly authorized by the Federal Open Market Committee, System operations in foreign currencies shall be undertaken only when necessary:



- 2 -

A. To cushion or moderate fluctuations in the flows of international payments, if such fluctuations are (1) deemed to reflect transitional market unsettlement or other temporary forces and therefore are expected to be reversed in the foreseeable future; and (2) are deemed to be disequilibrating or otherwise to have potentially destabilizing effects on U.S. or foreign official reserves or on exchange markets, for example, by occasioning market anxieties, undesirable speculative activity, or excessive leads and lags in international payments;

B. To temper and smooth out abrupt changes in spot exchange rates, and to moderate forward premiums and discounts judged to be disequilibrating. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified, curtailed, or eventually discontinued pending a reassessment by the Committee of supply and demand forces;

C. To aid in avoiding disorderly conditions in exchange markets. Special factors that might make for exchange market instabilities include (1) responses to short-run increases in international political tension, (2) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, and (3) market rumors of a character likely to stimulate speculative transactions. Whenever exchange market instability threatens to produce disorderly conditions, System transactions may be undertaken

- 3 -

if the Special Manager reaches a judgment that they may help to reestablish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. In such cases, the Special Manager shall consult as soon as practicable with the Committee or, in an emergency, with the members of the Subcommittee designated for that purpose in paragraph 6 of the Authorization for System foreign currency operations; and

D. To adjust System balances within the limits established in the Authorization for System foreign currency operations in light of probable future needs for currencies.

3. System drawings under the swap arrangements are appropriate when necessary to obtain foreign currencies for the purposes stated in paragraph 2 above.

4. Unless otherwise expressly authorized by the Committee, transactions in forward exchange, either outright or in conjunction with spot transactions, may be undertaken only (i) to prevent forward premiums or discounts from giving rise to disequilibrating movements of short-term funds; (ii) to minimize speculative disturbances; (iii) to supplement existing market supplies of forward cover, directly or indirectly, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders; (iv) to allow greater flexibility in covering System or Treasury commitments, including commitments under swap arrangements; (v) to facilitate the use of one currency for the settlement of System or Treasury commitments denominated in other currencies; and (vi) to provide cover for System holdings of foreign currencies.

RECORD IN RECORDS SECTION

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CONFIDENTIAL (FR)

February 18, 1966

Disposition of passages in Committee's  
existing foreign currency instruments in  
developing proposed new instruments

Symbols used:

- "A" - proposed new "Authorization for foreign currency operations"
- "D" - proposed new "Foreign currency directive"
- "(rev.)" - minor editorial changes made in transferring passage to proposed new instrument

AUTHORIZATION REGARDING OPEN MARKET TRANSACTIONS  
IN FOREIGN CURRENCIES

Deleted; no citation of statutory authority made in domestic directives

Deleted; not required under proposed format

Pursuant to Section 12A of the Federal Reserve Act and in accordance with Section 214.5 of Regulation N (as amended) of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee takes the following action governing open market operations incident to the opening and maintenance by the Federal Reserve Bank of New York (hereafter sometimes referred to as the New York Bank) of accounts with foreign central banks.

Deleted; FOMC selects N.Y. Bank to operate Account at annual organization meeting

I. Role of Federal Reserve Bank of New York

The New York Bank shall execute all transactions pursuant to this authorization (hereafter sometimes referred to as transactions in foreign currencies) for the System Open Market Account, as defined in the Regulation of the Federal Open Market Committee.

Included (rev.) in D, par. 1, introduction

II. Basic Purposes of Operations

The basic purposes of System operations in and holdings of foreign currencies are:

Included in D, pars. 1A and 1B

(1) To help safeguard the value of the dollar in international exchange markets;

(2) To aid in making the existing system of international payments more efficient and

Included (rev.) in D, par. 2C, first sentence

in avoiding disorderly conditions in exchange markets;

Included (rev.) in D, par. 1C

(3) To further monetary cooperation with central banks of other countries maintaining convertible currencies, with the International Monetary Fund, and with other international payments institutions;

Substance of first clause covered by general terms of A, par. 4, first sentence; substance of second clause in D, par. 2A

(4) Together with these banks and institutions, to help moderate temporary imbalances in international payments that may adversely affect monetary reserve positions; and

Substance in D, par. 1E [ (5) In the long run, to make possible growth in the liquid assets available to international money markets in accordance with the needs of an expanding world economy.

III. Specific Aims of Operations

Deleted; not required under proposed format

Within the basic purposes set forth in Section II, the transactions shall be conducted with a view to the following specific aims:

Substance in D, par. 2A

(1) To offset or compensate, when appropriate, the effects on U.S. gold reserves or dollar liabilities of disequilibrating fluctuations in the international flow of payments to or from the United States, and especially those that are deemed to reflect temporary forces or transitional market unsettlement;

Included (rev.) in D, par. 2B

(2) To temper and smooth out abrupt changes in spot exchange rates and moderate forward premiums and discounts judged to be disequilibrating;

Deleted; substance implied by D, pars. 1C and 1E

(3) To supplement international exchange arrangements such as those made through the International Monetary Fund; and

Substance in D, par. 1E

(4) In the long run, to provide a means whereby reciprocal holdings of foreign currencies may contribute to meeting needs for international liquidity as required in terms of an expanding world economy.

IV. Arrangements with Foreign Central Banks

Included (rev.) in A, par. 4, sentence 2

In making operating arrangements with foreign central banks on System holdings of foreign currencies, the New York Bank shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee.

Substance in A, par. 5; reference to foreign banks deleted as probably unnecessary

The Bank shall instruct foreign central banks regarding the investment of such holdings in excess of minimum working balances in accordance with Section 14(e) of the Federal Reserve Act.

-3-

Substance in A, par. 4,  
sentence 1

The Bank shall consult with foreign central banks on coordination of exchange operations.

Included (rev.) in A,  
par. 4, sentence 3,  
except final clause,  
which is covered by  
general terms of A,  
par. 6

Any agreements or understandings concerning the administration of the accounts maintained by the New York Bank with the central banks designated by the Board of Governors under Section 214.5 of Regulation N (as amended) are to be referred for review and approval to the Committee, subject to the provision of Section VIII, paragraph 1, below.

V. Authorized Currencies

Deleted; authorized  
currencies are listed  
in A, par. 1A

The New York Bank is authorized to conduct transactions for System Account in such currencies and within the limits that the Federal Open Market Committee may from time to time specify.

VI. Methods of Acquiring and Selling Foreign Currencies

Included (rev.) in A,  
par. 1A

The New York Bank is authorized to purchase and sell 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 Stabilization Fund of the Secretary of the Treasury established by Section 10 of the Gold Reserve Act of 1934 and with foreign monetary authorities.

Substance in A, par. 3

Unless the Bank is otherwise authorized, all transactions shall be at prevailing market rates.

VII. Participation of Federal Reserve Banks

Included in A, par. 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.

VIII. Administrative Procedures

(See next page)

The Federal Open Market Committee authorizes a Subcommittee consisting of the Chairman and the

-4-

Included (rev.) in A,  
par. 6

Vice Chairman of the Committee and the Vice Chairman of the Board of Governors (or in the absence of the Chairman or of the Vice Chairman of the Board of Governors the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate) to give instructions to the Special Manager, within the guidelines issued by the Committee, in cases in which it is necessary to reach a decision on operations before the Committee can be consulted.

All actions authorized under the preceding paragraph shall be promptly reported to the Committee.

Included (rev.) in A,  
par. 7

The Committee authorizes the Chairman, and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors:

- (1) 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 Secretary;
- (2) To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities;
- (3) From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Problems.

IX. Special Manager of the System Open Market Account

(See next page)

A Special Manager of the Open Market Account for foreign currency operations shall be selected in accordance with the established procedures of the Federal Open Market Committee for the selection of the Manager of the System Open Market Account.

-5-

Deleted as probably unnecessary; staff position of "Special Manager" is established in FOMC by-laws, Article II, Section 5; and instructions regarding reporting are not included in domestic directives

The Special Manager shall direct that all transactions in foreign currencies and the amounts of all holdings in each authorized foreign currency be reported daily to designated staff officials of the Committee, and shall regularly consult with the designated staff officials of the Committee on current tendencies in the flow of international payments and on current developments in foreign exchange markets.

The Special Manager and the designated staff officials of the Committee shall arrange for the prompt transmittal to the Committee of all statistical and other information relating to the transactions in and the amounts of holdings of foreign currencies for review by the Committee as to conformity with its instructions.

The Special Manager shall include in his reports to the Committee a statement of bank balances and investments payable in foreign currencies, a statement of net profit or loss on transactions to date, and a summary of outstanding unmatured contracts in foreign currencies.

X. Transmittal of Information to Treasury Department

Substance in A, par. 8

The staff officials of the Federal Open Market Committee shall transmit all pertinent information on System foreign currency transactions to designated officials of the Treasury Department.

XI. Amendment of Authorization

Deleted as probably unnecessary; no equivalent in domestic directives

The Federal Open Market Committee may at any time amend or rescind this authorization.



GUIDELINES FOR SYSTEM FOREIGN CURRENCY OPERATIONS

1. Holdings of Foreign Currencies

Substance in A,  
par. 1B (2)

Deleted as a statement  
of FOMC intent, not  
relating to current  
operations

Substance in A, par. 5

Until otherwise authorized, the System will limit its holdings of foreign currencies to that amount necessary to enable its operations to exert a market influence. Holdings of larger amounts will be authorized only when the U.S. balance of international payments attains a sufficient surplus to permit the ready accumulation of holdings of major convertible currencies.

Foreign currency holdings shall be invested as far as practicable in conformity with Section 14(e) of the Federal Reserve Act.

2. Exchange Transactions

Substance in D. par. 2A

Deleted; authorized  
swaps listed in A,  
par. 2

Deleted; implied by A,  
par. 1D

Substance in A, par. 1D

System exchange transactions shall be geared to pressures of payments flows so as to cushion or moderate disequilibrating movements of funds and their destabilizing effects on U.S. and foreign official reserves and on exchange markets.

In general, these transactions shall be geared to pressures connected with movements that are expected to be reversed in the foreseeable future; when expressly authorized by the Federal Open Market Committee, they may also be geared on a short-term basis to pressures connected with other movements.

Subject to express authorization of the Committee, the Federal Reserve Bank of New York may enter into reciprocal arrangements with foreign central banks on exchange transactions ("swap" arrangements), which arrangements may be wholly or in part on a standby basis.

Drawings made by either party under a reciprocal 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.

Substance in A, par. 3 | The New York Bank shall, as a usual practice, purchase and sell authorized currencies at prevailing market rates without trying to establish rates that appear to be out of line with underlying market forces.

Deleted as calling for action by FOMC | If market offers to sell or buy intensify as System holdings increase or decline, this shall be regarded as a clear signal for a review of the System's evaluation of international payments flows.

Substance in A, par. 4, sentence 1; language beginning "in order" deleted as probably unnecessary | It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions in order that System transactions do not conflict with those being undertaken by foreign monetary authorities.

### 3. Transactions in Spot Exchange

Substance in D, par. 1D (generalized to all transactions, not spot alone) | The guiding principle for transactions in spot exchange shall be that, in general, market movements in exchange rates, within the limits established in the International Monetary Fund Agreement or by central bank practices, index affirmatively the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public.

Substance in D, par. 2A (generalized as above) | Temporary or transitional fluctuations in payments flows may be cushioned or moderated whenever they occasion market anxieties, or undesirable speculative activity in foreign exchange transactions, or excessive leads and lags in international payments.

Included (rev.) in D, par. 2C, second sentence (generalized as above) | Special factors making for exchange market instabilities include (i) responses to short-run increases in international political tension, (ii) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, or (iii) market rumors of a character likely to stimulate speculative transactions.

Included, with change in substance, in D, par. 2C, third sentence (generalized as above)

Whenever exchange market instability threatens to produce disorderly conditions, System transactions are appropriate if the Special Manager, in consultation with the Federal Open Market Committee, or in an emergency with the members of the Committee designated for that purpose, reaches a judgment that they may help to re-establish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. Whenever supply or

Included in D, par. 2B, second sentence (generalized as above)

demand persists in influencing exchange rates in one direction, System transactions should be modified, curtailed, or eventually discontinued pending a reassessment by the Committee of supply and demand forces.

Substance in A, par. 3

Insofar as is practicable, the New York Bank shall purchase a currency through spot transactions at or below its par value, and sell a currency through spot transactions at rates at or above its par value.

Spot transactions at rates other than those set forth in the preceding paragraph shall be specially authorized by the Committee or by the members of the Committee designated in Section VIII of the Authorization for Open Market Transactions in Foreign Currencies, except that purchases of exchange to meet System commitments may be executed without special authorization at rates above par when necessary.

#### 4. Transactions in Forward Exchange

Substance in D, par. 4, introduction

Transactions in forward exchange, either outright or in conjunction with spot transactions, may be undertaken:

Substance in D, par. 4, clauses (i), (iii), and (iv)

- (1) When forward premiums or discounts are inconsistent with interest rate differentials and are giving rise to disequilibrating movements of short-term funds;
- (2) When it is deemed appropriate to supplement existing market supplies of forward cover, directly or indirectly, as a means

(con't.)	of encouraging the retention or accumulation of dollar holdings by private foreign holders;
Substance in D, par. 4, clause (v)	(3) To allow greater flexibility in covering System commitments, including those under swap arrangements;
Substance in A, pars. 1B (1) and 1C (1); see also D, par. 4, clause (v)	(4) To facilitate the use of holdings of one currency for the settlement of commitments denominated in other currencies.
Substance in D, par. 4, introduction	Forward sales of authorized currencies to the U.S. Stabilization Fund out of existing System holdings or in conjunction with spot purchases of such currencies also may be undertaken in order to allow greater flexibility in covering commitments of the U.S. Treasury.
	In all other cases, proposals of the Special Manager to initiate forward operations shall be submitted to the Committee for advance approval.

CONTINUING AUTHORITY DIRECTIVE  
WITH RESPECT TO FOREIGN CURRENCY OPERATIONS

Substance in A, par. 1A	The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines for System Foreign Currency Operations as amended November 23, 1965; provided that the
Deleted with omission of Guidelines	aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed \$2.8 billion equivalent at any one time, and
Replaced by listing of swaps in A, par. 2	provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed \$150 million equivalent at any one time:
Limit included in A, par. 1B (2); applied to System's long position	
List included in A, par. 1A; reordered for consistency with ordering of foreign banks listed in A, par. 2	Pounds sterling French francs German marks Italian lire Netherlands guilders Swiss francs Belgian francs Canadian dollars Austrian schillings Swedish kronor Japanese yen
Substance in A, par. 1A	The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies in accordance with the Guidelines and up to a combined total of \$275 million equivalent, by means of:
Limit included in A, par. 1C (3); applied to System's short position. See also A, par. 1B (1)	(a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
Substance in D, par. 4, clauses (iv) and (v)	(b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies;

-11-

Substance in D,  
par. 4, clauses (i)  
and (ii)

- (c) purchases through spot transactions and concurrent sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations; and
- (d) sales through forward transactions for the purpose of influencing interest arbitrage flows of funds and of minimizing speculative disturbances.

Substance in A, pars.  
1C (1) and 3; see also  
A, par. 1B (1)

The Federal Reserve Bank of New York is also authorized and directed to make purchases through spot transactions, including purchases from the U.S. Stabilization Fund, and concurrent sales through forward transactions to the U.S. Stabilization Fund, of any of the foregoing currencies in which the U.S. Treasury has outstanding indebtedness, in accordance with the Guidelines and up to a total of \$100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

Substance in A,  
par. 1B (3); see also  
D, par. 4, clause (vi)

The Federal Reserve Bank of New York is also authorized and directed to make purchases of sterling on a covered or guaranteed basis in terms of the dollar up to a total of \$200 million equivalent.

Substance in A,  
par. 1C (2); see also  
A, par. 1B (1); and  
D, par. 4, clause (iii)

The Federal Reserve Bank of New York is also authorized and directed to assume commitments for forward sales of lire up to \$500 million equivalent as a means of facilitating the retention of dollar holdings by private foreign holders.