March 2, 1967.

TO: Federal Open Market Committee

FROM: The Staff

Subject: Record of discussions on publication of data on System foreign currency operations.

The question of publication policy in the area of foreign currency operations has been considered on four principal occasions:

1. Around the time of the inception of the program, 1961-62.
2. In considering a proposed new authority to engage in forward sales of foreign currencies, October 1964.
3. In discussing proposed new foreign currency instruments, May 1966.
4. In connection with British use of the swap facility at various times in 1966.

This memorandum contains excerpts from the official records on each of these occasions, and a concluding section describing existing practices with respect to the publication of international transactions of the System.

INCEPTION OF THE PROGRAM, 1961-62

Young Memorandum, June 1961

The earliest reference to publication of data appears in Mr. Young's memorandum to the Board of June 16, 1961, proposing the initiation of foreign currency operations:

From inception, the System has used a weekly condition statement to disclose the results of its operations to financial markets and the public generally. The financial effects of its transactions in foreign exchange would necessarily become public knowledge through this medium. To avoid undue public comment and discussion of this activity, in view of the sensitivity of foreign exchange markets to it, the Board may find it advisable to continue for the time being the present practice of reporting balances due from foreign banks under "other assets" rather than reporting them separately. At the same time, the principle of financial statements disclosure of all operations is one to which a central banking system must adhere if it is to sustain the full confidence of the public.

Accordingly, it might be desirable, when these balances begin to approach or exceed $100 million, that they be shown separately in the monthly statement published in the Federal Reserve Bulletin with a lag of one month, e.g., the foreign exchange holdings for say March would be published in the April Bulletin.

Regular publication of a country breakdown of foreign currency holdings would be a desirable practice. Such a breakdown could be published quarterly with a lag of nearly four months, e.g., first quarter figures would be published in the June Bulletin. 1/

Board Meeting, February 1962

The authorization, guidelines, and continuing authority directive for the program were adopted by the FOMC on February 13, 1962. On February 16, the Board decided to publish data on total holdings of foreign currencies on a weekly and monthly basis, with the weekly figures not to be shown in the weekly release but only in the weekly data published monthly in the Bulletin. This decision was communicated to the Federal Reserve Banks by letter of February 16, 1962. The question of publishing data on holdings of individual currencies was deferred, although the view was "reflected" that "the program of disclosure of information envisaged by the letter represented a minimum, or starting point." At this meeting,

1/ Memorandum from Ralph A. Young to Board of Governors entitled, "Federal Reserve holdings of foreign currencies."

Governor Mills observed that as a broad general principle there was no question as to the desirability of full disclosure. In this particular instance, however, he raised the question whether it would be advisable to follow a policy of disclosure, even with what might seem to be a reasonable time lag. He was concerned about the necessity for secrecy of operations in order to enable the System to deal with temporary disequilibria in the foreign exchange market, which suggested to him that disclosure of information should not be made, at least not without a long time lag. In this regard, he was apprehensive that even the publication of total holdings might permit market operators to identify the currencies involved in System transactions. Accordingly, although the suggested approach contemplated a desirable objective, he wondered whether a delay in making a decision might not be in order so that an evaluation could be made after some experience had been gained. (Board minutes, pp. 7-8)

The decision to publish monthly data on holdings of individual currencies with a four-month lag (e.g. December data in April Federal Reserve Bulletin) was obviously made between February and September, 1962, when the data by individual currencies first appeared; however, no specific reference to this decision has been found in the Board's minutes.

Chairman Martins Testimony before Congress, February 1962

Chairman Martin made the first public announcement of the foreign currency program in testimony before the House Banking and Currency Committee on February 27, 1962. The following colloquy occurred between him and Representative Reuss:

Mr. Reuss. Let me ask you this: What do you propose to do under this by way of informing, either publicly or in executive session, the duly constituted committees of Congress, including this committee, the House Committee on Banking and Currency?

Mr. Martin. We intend to make reports in our statements periodically.

Mr. Reuss. Once a year?

Mr. Martin. No. Our statements come out weekly and monthly. We have a bulletin. We will try to report as fully as we think the public interest requires every transaction that will be useful.

Mr. Reuss. Are you willing to report to us as fully as we think the public interest requires or are you the judge of that?

Mr. Martin. Well, I think we have to make the judgment on the basis of our present authority. I would be perfectly willing to come up here in executive session and discuss any aspect of it with you at any time.

Mr. Reuss. Is there any reason why you can't make, to each member of the Banking and Currency Committee who passes whatever security clearance you propose to set up, a monthly report which tells him in understandable language just what it is you are doing, what you bought and sold, and what you propose to do? And, particularly, what these vague cooperative arrangements are that you propose to make with foreign central and reserve banks?

Mr. Martin. I don't believe, in the absence of more experience, that we would be justified in doing that. If we open an account with a bank in X country, they are entitled to some consultation with respect to their end of the transaction. I think that our reporting what we are doing, and our holdings, similar to the way we report our open market transactions, is about all we could be asked to do at the present time without defeating the purpose of what we are driving at. 1/

Later in the same hearing the Chairman made the following statement:

I thought it was wise to give you full disclosure under the existing authority, and our reporting to you will be exactly the same as it is with respect to other operations of the System, in the procedures which the Congress has set up for us. 2/

FOMC Meetings, February-March 1962

At the FOMC meeting of February 13, 1962, Governor Balderston commented that:

1/ Bretton Woods Agreements Act Amendment: Hearings before the House Committee on Banking and Currency, February 27, 1962, pp. 102-103.
2/ pp. 140-141.

The reporting on foreign currency operations ought to be as complete as confidentiality would permit. (FOMC minutes, p. 70)

At the meeting of March 6, 1962, Chairman Martin commented on the need for confidentiality:

At the beginning of today's discussion of System Foreign Currency Operations, Chairman Martin emphasized the highly confidential character of such operations. It was particularly important, he pointed out, for all those in attendance at this meeting to bear in mind that in these operations the Federal Reserve was dealing with foreign governments and central banks. (p. 54)

FORWARD SALES AUTHORIZATION, OCTOBER 1964

FOMC Meeting, October 20, 1964

In October 1964, when the Special Manager proposed a new authority to engage in forward sales of foreign currencies, some concern was expressed that such operations might lead market participants to make incorrect evaluations of events:

What made him (Mr. Mitchell) uneasy was the possibility that the Committee would be papering over difficulties, and concealing from people who had a legitimate concern with the market facts they otherwise could read in market performance. He agreed that market participants often were wrong in their judgments, and took speculative positions that clearly were off base. He thought the Committee should do whatever it could to correct such situations. But how could one differentiate between such cases and others in which the Committee might be trying to do something of a much more marginal nature? How would the Committee know whether the objective in a particular operation was one it could support?

Mr. Robertson said that he shared Mr. Mitchell's belief that the Committee should not edge into a situation in which it was tinkering arbitrarily with the market. He suggested that the Committee approve the recommendation on an experimental basis, the authority to be used sparingly with the understanding that the Special Manager would give the Committee a full accounting of the nature and results of every action taken under the authority. (pp. 13-14)

To this Mr. Coombs rejoined:

that the Committee now got a full accounting on all operations, and he was not suggesting any change in this procedure. As for giving information to the market, a complete report was made every six months. He did not think there was a risk of misleading market participants by the proposed forward operations; it would simply be made clear that the authorities did not want a forward rate to go beyond some given point. (pp. 14)

NEW FOREIGN CURRENCY INSTRUMENTS, MAY 1966

FOMC Meeting, May 10, 1966

Governor Mitchell suggested adding the following paragraph to the proposed new foreign currency directive:

"5. The Committee, in authorizing the foregoing operations, does not seek to conceal or distort the real effects of underlying economic forces on the currency of any country. When the magnitude or duration of operations are presumptive evidence to the contrary the full extent of support shall be made known promptly." (p. 10)

The excerpts below are from the ensuing discussion.

He (Mr. Coombs) thought that if the proposed new paragraph 5 was given a liberal interpretation it would not pose a problem most of the time. Under certain circumstances, however, it might prove extremely restrictive. For example, along with the U.S. Treasury and other central banks, the System had rendered substantial assistance in support of sterling over an extended period, in an effort to counter strong underlying forces. If the proposed language had been in effect it could have been interpreted to require making known the full extent of that support promptly.. But it had been deemed necessary to keep details of the support secret for a time, because prompt disclosure might well have defeated the whole purpose of the assistance given. Similar emergencies could arise in the future, in connection not only with sterling but with other currencies as well, and perhaps the dollar; and the language might be considered to call for prompt public disclosures of a type that would be undesirable. Accordingly, he would not recommend adding the paragraph.

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Chairman Martin commented that the changes Mr. Mitchell had suggested appeared in large part to involve matters of language only.

Mr. Wayne said he did not feel that was the case with respect to the proposed new paragraph 5. On first reading the statement seemed to serve a useful purpose, but on reflection he was not sanguine that the Committee would be able to hold to it in a true emergency affecting some major foreign currency or the dollar. If that judgment was correct he would question the desirability of including the paragraph.

Mr. Daane agreed with Mr. Wayne regarding the proposed new paragraph. . . .

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Mr. Hayes said he. . . . agreed that the suggested paragraph 5 could be very damaging in major crises. There had been two or three crises in the past few years and there might well be others.

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Mr. Mitchell commented that if there was any question on the point he wanted to make clear that he had not intended to imply any criticism of the Special Manager. On the contrary, he had felt that his suggestions were in line with the policies the Special Manager had been pursuing and had been recommending. He was concerned with the possibility that the Committee might eventually come under attack from critics charging that it was distorting market conditions and concealing facts. If the directive contained language of the sort he had suggested for paragraph 5, it would strengthen the Committee's position in meeting such charges. He had no particular pride of authorship in the specific wording and was not wedded to it, but the substance seemed to him to be consistent with the way in which the Committee was trying to operate.

Mr. Wayne agreed with Mr. Mitchell's observation, but thought that the purpose would be served by including the first of the two sentences. He would omit the second sentence, which was where the problem lay. (pp. 12-17)

BRITISH USE OF SWAP FACILITY, 1966

At three separate FOMC meetings involving discussions of British use of the swap facility, comments were made which relate to the public disclosure issue.

FOMC Meeting, March 22, 1966

. . . . Mr. Mitchell. . .was concerned about the British use of its swap line with the System for window dressing purposes. That matter had been discussed by the Committee on earlier occasions, and it had been agreed that the System's own true position should be made known at all times. . . .

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As to Mr. Mitchell's remarks on window dressing, Mr. Coombs said, he supposed it could be argued that to some extent the System was disguising the true position of the U. S. every time it drew on its swap lines and used the proceeds to buy dollars from foreign central banks, thereby avoiding gold losses. The System's swap operations were reported fully every six months, and he thought it was a reasonable procedure to make such reports after the market had had a chance to readjust. British drawings on the swap lines came to more or less the same thing; they strengthened the U.K. reserve position and forestalled reserve losses. The Bank of England reported any use of its swap lines each month, although they did withhold information on the amount of the drawings for several months. In one respect the British might be said to provide a fuller accounting than the U.S. did, since they reported drawings within a month whereas the System did so only at six-month intervals.

Mr. Mitchell expressed the view that the Committee should give a clear and accurate accounting of its operations. As to the British, in his judgment their failure to disclose the amount of their swap drawings was tantamount to no accounting at all. He then asked whether the System's swap drawings were reflected in its weekly statement.

Mr. Coombs replied in the negative. He remarked that such a suggestion would raise a major policy issue, and Mr. Mitchell agreed.

Mr. Daane commented that immediate disclosure of operations of the type being discussed clearly would have a market impact and in his opinion would be undesirable. The System did disclose such operations after an appropriate interval, and thus reduced the possibility of adverse effects.

Mr. Mitchell expressed concern that the Committee might be drifting into the position of saying that the market was not entitled to know the true situation. He thought that would be a dangerous position, and one that risked reactions that could lead to a worsening of the underlying situation.

Chairman Martin thought it was important that that the Committee bear in mind the points Mr. Mitchell had made. At the same time, he did not think the Committee would want to go to the extreme of reporting all of its foreign exchange operations immediately, just as it would not want to announce its domestic policy decision following each meeting.

Mr. Mitchell agreed that the latter procedure would be undesirable. He added, however, that the information in the System's published statements gave knowledgeable people some idea of the nature of the Committee's decisions on domestic policy.

Chairman Martin commented that the situation with respect to the System's foreign exchange operations was affected by the fact that they were experimental and that the System had not yet accumulated a great deal of experience with them. It also was important to note that the existing foreign exchange markets had developed relatively recently; there were only fragmentary markets after World War II, until the major currencies became convertible in 1958. He shared Mr. Coombs' view that the two recent operations in sterling had been quite successful but if repeated too often such operations would lose their effectiveness. And he agreed with Mr. Mitchell that the Committee certainly did not want to engage in window dressing or to obscure the realities of the situation in other ways. (pp. 6-9)

FOMC Meeting, June 28, 1966

Mr. Mitchell said that he, for one, felt the British would achieve the results they sought faster if they reported their reserve position accurately than if they attempted to conceal their true position.

Mr. MacLaury remarked that while the New York Bank had not recommended that the British reveal their full reserve loss in June, the rationale underlying their advice to show a decline of $200 million was similar to that underlying Mr. Mitchell's position; namely, that an indication of the magnitude of the cost to Britain of the maritime strike would increase the pressure for an early settlement. (p.10)

FOMC Meeting, July 26, 1966

Mr. Shepardson asked whether the purpose of the proposed overnight credit extension to the British was to allow them to window-dress their reserve statement.

Mr. Coombs replied affirmatively, but added that the more basic purpose was to save them from bankruptcy. The market had no inkling of the actual size of their July reserve loss, and if the British published figures showing a large loss a panic situation was likely to result that might lead to either the imposition of exchange controls or devaluation.

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Mr. Robertson said that it might be the better part of wisdom for the British to camouflage their reserve losses. On the other hand, it might very well be that publication of the true reserve loss was necessary in order to win public acceptance of the wage-price freeze, and that the System would be doing the British a disservice in helping them to paper it over. He did not feel he knew enough about the situation to reach an independent judgment on the question, but he thought the fact that it had two sides should be recognized.

Mr. Coombs agreed, but added that, in the judgment of the Bank of England and the British Treasury, publication of a reserve loss as large as $200 or $300 million for July might prove disastrous.

Mr. Hayes noted that in June, during the seaman's strike, the Federal Reserve Bank of New York had thought it would be desirable for the British to show most of the loss they incurred in that month. The market situation then was not as acute as at present and there was an advantage seen in bringing home to the public the seriousness of the strike's effects. However, in the judgment of many people the present situation was too dangerous to take the chance of showing a large loss for July.

Mr. Heflin asked how widely the true British position was known.

Mr. Coombs replied that the recent British reserve figures were reflected on the books of the Federal Reserve Bank of New York, but were not known by other central banks; each such bank saw only a small piece of the whole picture. Conceivably, the Bank of England might disclose the figures to a European central bank in an effort to obtain credits, but otherwise they were not likely to do so.

Mr. Hayes observed that that fact underscored the confidential nature of the figures. It was extremely important, he said, that they not be disclosed outside of the meeting room.

Mr. Shepardson asked whether authorization by the Committee was required for the proposed overnight accommodation of the British.

Mr. Coombs replied in the negative. In effect, he had suggested that he would take a more restrictive position in his discussions with the Bank of England than the Committee had approved generally for swap drawings. It was possible that the British would object to that position, and that he would have to consult on the matter before the next meeting of the Committee with the available members of the Subcommittee designated for such purposes in the Committee's foreign currency authorization.

Mr. Shepardson commented that he still did not like the window-dressing involved but he supposed that it was necessary.

Mr. Robertson remarked that no members liked it, but if it was necessary a short period presumably was better than a long one. (pp. 14-19)

EXISTING PUBLICATION PRACTICES

In summary, the System has regularly published the following information regarding foreign currency operations:

1. Total "other assets" in the Board's weekly release which include, but do not show separately, System holdings of foreign currencies.
2. Monthly total holdings of foreign currencies, with a lag of one month, together with holdings on each Wednesday within the preceding month.
3. Monthly holdings of individual foreign currencies, with a lag of four months.
4. For transactions through 1965, full use of swap arrangements by either partner, showing total amount drawn and repaid during each calendar year. In addition, a considerable amount of detail on the timing of transactions within the year has normally been shown, either in the Special Manager's semiannual articles, or in his report contained in the Board's *Annual Report*, or both.
5. Other purchases and sales of foreign exchange, annual totals.

The following information regarding foreign currency and other foreign operations of the System is not publicly disclosed:

1. The ownership, by country, of the deposits at the Federal Reserve Bank of New York, and the assets held by that bank (gold, U.S. Government securities, bankers acceptances) in custody for foreign central banks and other official agencies.
2. Loans on gold collateral, by country. Even the outstanding total of such loans is published only once a year, as of December 31, in the Board's *Annual Report*.
3. A breakdown of FR holdings of foreign currencies, either total or by country, showing separately the amount of such holdings resulting from (a) swap drawings, (b) purchases with an exchange rate guarantee, or (c) uncovered purchases.

It may also be noted that Stabilization Fund holdings of individual foreign currencies are published only at quarter-end, with a four-month lag, although total Treasury holdings of foreign currencies--like those of the System--are published monthly with a lag of one month.