

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

REC D IN RECORDS SECTION
JUN - 4 1968

June 3, 1968.

### STRICTLY CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Holland

Attached for your confidential reference is a staff memorandum dated June 3, 1968, summarizing Treasury views concerning "backstopping" of Federal Reserve swap arrangements.

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

Clara Hollan

Attachment

June 3, 1968.

#### STRICTLY CONFIDENTIAL (FR)

TO: Federal Open Market Committee SUBJECT: Treasury views

concerning "backstopping" of

FROM: The Staff Federal Reserve swap arrangements

The following is a summary of views expressed by Under Secretary

Deming to Chairman Martin in connection with negotiations over a formal

statement as to Treasury backstopping of Federal Reserve swap arrangements.

On the basis of these views, drafting work is proceeding on a possible

formal communication between the Treasury and the System.

#### Background

- 1. The basic concept of a swap drawing by the Federal Reserve is that it is short term. It is used to provide an exchange guarantee for a dollar accrual to a foreign central bank in excess of that bank's "normal" (uncovered) dollar balances where there is every reason to expect that the accrual is temporary and will soon be reversed.
- 2. On occasion, anticipated reversals have not occurred, and it has been necessary for the United States to acquire the foreign currency needed to repay the drawing by: (a) "funding," through sales of foreign-currency-denominated securities (providing an exchange guarantee) or IMF drawings (providing a gold value guarantee): or (b) sale of gold; or (c) by the foreign central bank's increasing its "normal" (uncovered) dollar balances; or by a combination of these three.
- 3. There has been some evolution in practice toward using swap drawings for interim financing even when early reversal is not reasonably certain, and this development puts more emphasis than before on "funding" or "settling" and raises questions as to the definition of "short-term."

## Issues

- 1. As the Treasury sees it, we should keep in our hands all present "settlement" options, and give no commitment to settle in gold. The present ad hoc arrangements for settlement of non-reversed flows of funds have worked out fairly well, and it would be unwise to give even an implied commitment to settle in gold.
- 2. While the Treasury must naturally continue its long-standing commitment to "take out" a matured Federal Reserve swap by use of the basic reserve resources of the United States (gold, IMF drawings, foreign currency-denominated securities, and—in the future—Special Drawing Rights), the evolution of swap drawings into an interim financing device that is likely to require more "funding" than in the past means that closer policy and operational consultation on swap usage probably needs to be worked out between the Treasury and the Federal Reserve for the future.
- 3. Consideration should also be given to somewhat longer terms for swap drawings, although they should still be repaid within a year.