



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

August 14, 1972

CONFIDENTIAL (FR)

To: Federal Open Market Committee

From: Arthur L. Broida

Enclosed for your information is a copy of a letter from Secretary Shultz to Chairman Burns, dated August 8, 1972, confirming the oral understanding reached earlier with respect to the use of System swap facilities in connection with Federal Reserve intervention in foreign exchange markets.

A handwritten signature in cursive script, appearing to read "A. L. Broida".

Arthur L. Broida
Deputy Secretary
Federal Open Market Committee

Enclosure



THE SECRETARY OF THE TREASURY
WASHINGTON

AUG 8 1972

Dear Mr. Chairman:

I want to confirm our understanding in conversations on and before July 18, 1972, with respect to intervention in foreign exchange markets.

Such market intervention by the Federal Reserve will require resources of foreign exchange that can most readily be obtained from recourse to use of the existing swap network. On August 15, Secretary Connally requested the suspension of the virtually automatic use of your swap network for the purpose of converting dollars into other currencies, while noting the future operation of these and other mutual credit facilities will be determined in the light of emerging developments. I have agreed the planned Federal Reserve intervention in exchange markets will require use of the swap facilities for that purpose.

In undertaking these operations, we agreed that market operations will be conducted in close day-to-day consultation with the Treasury, and I noted the Exchange Stabilization Fund might, when convenient and desirable, engage in such intervention on behalf of the Treasury.

Sincerely yours,

A handwritten signature in cursive script, reading "George P. Shultz".

George P. Shultz

The Honorable
Arthur F. Burns
Chairman, Federal Reserve Board
Washington, D. C. 20551