



-2-

The second proposed modification relates to paragraph 3 of the Procedural Instructions. In the material distributed on December 14 this paragraph read as follows:

The Manager shall also consult with the Subcommittee or the Chairman about other transactions, including proposed swap drawings by the System, when the amounts are substantial or the operations are not of a routine character.

The language now proposed is as follows:

3. The Manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any transactions that are not of a routine character.

The main objective of this modification is greater clarity. Also, the reference in the earlier version to transactions that are substantial in amount is superfluous, since clearance of substantial transactions is required by paragraphs 1 and 2.

The full texts of the Authorization, Directive, and Procedural Instructions in the form proposed on December 14 were shown in attachments to that memorandum labelled B, C, and D. Also, proposed language for a special authorization, the purpose of which was explained in the December 14 memorandum, was shown in an Attachment E. For convenient reference, these four attachments are reproduced here, with changes only in B (the Authorization) and D (the Procedural Instructions) to reflect the modifications described above.

Attachments

ATTACHMENT B

FOMC DRAFT 3

REVISED AUTHORIZATION FOR 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 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. 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.

- 2 -

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. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of open positions in each currency. The open 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:

- 3 -

<u>Foreign bank</u>	<u>Amount of arrangement (millions of dollars equivalent)</u>
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	2,000
Bank of Italy	3,000
Bank of Japan	2,000
Bank of Mexico	360
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	1,400
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 -

4. It shall be the 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 accordance with Section 14(e) of the Federal Reserve Act.

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 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 the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his

- 5 -

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.

ATTACHMENT C

FOMC DRAFT 2

REVISED FOREIGN CURRENCY DIRECTIVE

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 proposed 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 collaboration with the United States Treasury;



- 2 -

- 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 proposed IMF Article IV.

ATTACHMENT D

FOMC DRAFT 3

PROCEDURAL INSTRUCTIONS

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager of the System Open Market Account, shall be guided by the following procedural understandings with respect to consultations and clearance with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. The Manager shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):
  - A. Any transaction which would result in a change in the System's overall open position in foreign currencies exceeding \$100 million on any day or \$300 million since the most recent regular meeting of the Committee.
  - B. Any transaction which would result in gross transactions (excluding swap drawings and repayments) in a single foreign currency exceeding \$100 million on any day or \$300 million since the most recent regular meeting of the Committee.

-2-

C. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) \$200 million or (ii) 15 per cent of the size of the swap arrangement.

2. The Manager shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any transaction which would result in a change in the System's overall open position in foreign currencies exceeding \$500 million since the most recent regular meeting of the Committee.

B. Any swap drawing proposed by a foreign bank exceeding the larger of (i) \$200 million or (ii) 15 per cent of the size of the swap arrangement.

3. The Manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any transactions that are not of a routine character.

ATTACHMENT E

FOMC DRAFT I

Suggested language for special authorization  
under paragraph 1(D) of proposed Authorization

The Federal Open Market Committee authorizes the Federal Reserve Bank of New York to maintain an overall open position in foreign currencies exceeding the figure of \$1 billion specified in paragraph 1(D) of the Authorization for Foreign Currency Operations by an amount equal to the remaining forward commitment associated with the System's outstanding 1971 swap drawings in Swiss francs.