



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

March 14, 1978

CONFIDENTIAL (FR)
CLASS II FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida

ALB

Attached is a copy of a memorandum from Mr. Truman dated March 13, 1978, and entitled "Agreement to warehouse foreign currencies for ESF."

This memorandum will be considered at next Tuesday's meeting of the Committee under agenda item 11.

Attachment

CONFIDENTIAL (FR)
CLASS II-FOMC

March 13, 1978

TO: Federal Open Market Committee SUBJECT: Agreement to warehouse
FROM: Edwin M. Truman foreign currencies for ESF

EMT

At its meeting on January 17, 1977, the Committee agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies held by the Exchange Stabilization Fund (ESF)--that is, to make spot purchases of foreign currencies from the ESF and simultaneously to make forward sales of the same currencies to the ESF--if that should prove necessary to enable the ESF to deal with potential liquidity strains. (The texts of the exchange of letters between Secretary Simon Chairman Burns are attached.) It was also agreed that the agreement could be reviewed periodically, with the first possible reconsideration set for the March 1978 organizational meeting.

The Treasury Department has indicate that it is interested in continuing the agreement, which has been in existence in one form or another for a number of years. The staff's judgment is that the agreement should be continued in its current form. The current arrangement has not been used, and it is not likely to be used in the near future, since the ESF does not hold substantial balances of foreign currencies. However, such operations have proved useful in the past. Alan Holmes concurs in this judgment.

Attachments



THE SECRETARY OF THE TREASURY
WASHINGTON

JAN 14 1977

Dear Arthur:

I have written to you today under separate cover a letter confirming our understandings with respect to United States participation in the official sterling balance facility agreed in principle at Basle on January 10.

I am very pleased that we have been able to work out arrangements for cooperation in this matter which meet the needs of both the Federal Reserve System and the Treasury. In view of the potential liquidity strains on the ESF arising from this and other claims on the ESF I would appreciate your willingness to work out, along the lines we had discussed, warehousing arrangements for the ESF of \$1-1/2 billion, \$750 million of which would be provided for periods of twelve months and the remainder for periods of six months. I understand that the recent modification in language in the FOMC guidelines did not change the authorization for such warehousing which has existed for a number of years.

Given our joint participation in the official sterling balances facility, and our sharing equally of the risks, I am sure you will agree that Treasury and the Federal Reserve will need to work out together any questions related to implementation of the Basle agreement. In this connection, it is my understanding, in the event the IMF Managing Director finds that the United Kingdom is not fulfilling the provisions of the agreement, that the Federal Reserve and the Treasury would jointly have to agree if U.S. financing were to be continued despite the Managing Director's findings. I am confident that our two institutions will be able to agree on this and other questions of implementation in the spirit of cooperation which has characterized our relationship and it is on this basis that I have agreed to the understandings set forth in our exchange of letters.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill", written in dark ink.

William E. Simon

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



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

January 17, 1977

Dear Mr. Secretary:

At its meeting today the Federal Open Market Committee took note of the suggestion in your letter of January 14, 1977, that the Federal Reserve provide, along the lines we had discussed, warehousing arrangements for the ESF of \$1-1/2 billion, \$750 million of which would be available for periods of twelve months and the remainder for periods of six months.

I am pleased to inform you that the Federal Reserve will be prepared, if requested by the Treasury, to warehouse eligible foreign currencies for the ESF on the basis you have suggested.

I and my colleagues share your confidence that our two institutions will be able to work out together any questions related to the Basle agreement in the spirit of cooperation that has long characterized our relationship.

Sincerely yours,

Arthur F. Burns

The Honorable William E. Simon
Secretary of the Treasury
Department of the Treasury
Washington, D. C. 20220