



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

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

TO: Federal Open Market Committee

DATE: August 18, 1989

FROM: Normand Bernard *N.B.*

There is attached a memorandum by Chairman Greenspan in which he proposes an historical review by the staff of System operations in the foreign exchange markets. This matter will be discussed at the meeting on Tuesday.

Attached

August 18, 1989

TO: Federal Open Market Committee SUBJECT: Historical Review of System
FROM: Alan Greenspan Foreign Currency Operations

STRICTLY CONFIDENTIAL (FR)
CLASS I-FOMC

At recent meetings of the FOMC, a number of questions and concerns have been raised about foreign currency operations. I believe that a constructive way of responding to some of those concerns would be to commission a comprehensive review of the System's operations in foreign currencies to provide the Committee with a common background in the historical and institutional aspects of these operations to help to inform future discussions.

I suggest the establishment of a staff task force under the joint direction of Sam Cross and Ted Truman to review essentially all aspects of System foreign currency operations. The task force would review the historical and institutional aspects of these operations with a view to bringing together in one place the various bits and pieces of knowledge, most of which exist in a number of documents but much of which exists in an integrated form only in the "oral tradition" of those people in the Foreign Department of the Federal Reserve Bank of New York and at the Board who have been intimately involved with these operations over a long period.

While the task force would select the specific topics to be covered, I would expect it would cover at least the following topics:

1. legal bases for System foreign currency operations,
2. evolution of System and ESF operations and U.S. policy on exchange rates,
3. evolution of formal procedures governing System operations under FOMC oversight,
4. history of System operations, including
 - (a) the objectives and use of intervention,
 - (b) use of the swap network,
 - (c) holding of foreign currency balances,
5. historical review of approaches and tactics of intervention in the context of changing market conditions, and
6. System profits and losses in intervention operations to date.

The task force would be composed mainly of staff at the Board and the Federal Reserve Bank of New York, with one or two official staff from elsewhere in the System. After the initial staff work is completed, it would be reviewed in draft by a committee of research directors from all the Reserve Banks in the general interests of promoting understanding and knowledge. This project is expected to take about six months. The final product would be sent to the FOMC.