



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

June 11, 1976

STRICTLY CONFIDENTIAL (FR)
CLASS I FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida *ALB*

Attached for your information is a copy of a memorandum dated June 10, 1976, and entitled "Report concerning international credit assistance to Britain."

A paper entitled "The U.K.'s Economic Situation" is being distributed separately.

Attachment

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

TO: FOMC Records

DATE: June 10, 1976

FROM: Arthur L. Broida *ALB*

SUBJECT: Report concerning
international credit assistance
to Britain

At Chairman Burns' request, the available members of the Federal Open Market Committee (Governors Gardner, Coldwell, Jackson, Lilly, and Partee) assembled in the Board Room at 9:30 p.m. on Sunday, June 6, to hear a report from the Chairman concerning an agreement just completed for international credit assistance to Britain.^{1/} Earlier, Governor Gardner had telephoned information about the agreement to Governor Wallich, who was in Frankfurt, Germany, and during the course of this session Governor Gardner left to telephone the same information to the President-members of the Committee.

In his remarks, Chairman Burns noted that all Committee members were aware of the difficulties that sterling had been experiencing recently. The sterling crisis was a matter of great concern to all countries on the Continent and to other countries as well, including the United States. For the past several days he had been involved in negotiations with the Bank of England, and he had also been in continual contact with officials of the United States Treasury and State Departments and the Federal Reserve Bank of New York, as well as with Board staff. At the same time the Bank of England had been carrying on negotiations with countries in the Group of Ten and with Switzerland.

As a result of these discussions, Chairman Burns continued, standby credits totaling about \$5 billion had been made available to the

^{1/} The following staff members were also present: Messrs. O'Connell, Reynolds, Coyne, and Broida.

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Bank of England by eight countries and the BIS.^{1/} The United States was party to the agreement in an amount up to \$2 billion. In a sense, U.S. participation involved merely a reaffirmation by the Federal Reserve of its existing swap facility with the Bank of England. However, he had suggested to the U.S. Treasury that it act as an equal partner with the System in the arrangement, and the Treasury had agreed. Thus, the Federal Reserve and the Treasury's Exchange Stabilization Fund had each undertaken to make available \$1 billion to the Bank of England on identical terms.

The Chairman observed that the terms of the agreements between the Bank of England on the one hand and the System and the Treasury on the other were, for the most part, the same as those traditionally embodied in the System's swap contracts. For example, any sterling balances credited to the System as a consequence of a British drawing would earn interest at a rate equal to the U.S. bill rate, each drawing would be for three months, and repayments would be in dollars.

However, Chairman Burns remarked, the agreements differed from the usual swap contract in providing that drawings would be subject to only one renewal; in effect, credits would have a 6-month term. Moreover, the agreements included a take-out provision in the form of a commitment by the British to make an IMF drawing if necessary to repay any credits outstanding at the end of the 6-month period.

^{1/} Subsequent to this session information was received that France would participate in the arrangement, raising the number of countries to nine and the total of standby credits to \$5.3 billion.

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Chairman Burns noted that throughout the negotiations he had kept in touch with Governor Gardner and President Volcker, who were members of the FOMC's Foreign Currency Subcommittee; Governor Wallich, the remaining Subcommittee member, was traveling abroad and not readily available for consultation. He would have preferred to consult at each stage with all members of the Federal Open Market Committee, but developments had proceeded so rapidly--with the proposals under consideration changing hour by hour--that it had not been feasible to do so. The final arrangements were approved by the available members of the Subcommittee--Messrs. Volcker, Gardner, and Burns.

Originally, the Chairman observed, the Bank of England had proposed that the Federal Reserve permit it to draw up to \$3 billion, the full amount of its swap line with the System. The basic need, of course, was to restore international confidence in sterling, and in his judgment such a credit would have proved insufficient for the purpose. Accordingly, he had suggested to the British that they seek other partners as well, and they had done so. The countries approached--Germany, Switzerland, Japan, the Netherlands, Belgium, Canada, and Sweden--were quite willing to cooperate, and so was the BIS. It might prove unnecessary for the Bank of England to draw on the credits extended, but any drawings they did make would be made pari passu on all of the creditors involved.

In his conversations with Governor Richardson over the weekend, Chairman Burns continued, he had made the point repeatedly that confidence in sterling depended ultimately not on the availability of international credits but on the willingness of the British authorities to take appropriate

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fiscal and monetary measures. In offering such comments he had made clear that he was speaking not in his official capacity but as an economist and as a friend of Great Britain. In response, Governor Richardson had indicated that the Bank of England was planning to take some steps to deal with excess domestic liquidity and that Chancellor Healey would announce Britain's intention to draw on the IMF if necessary to repay the credits--an action which the British public would understand to mean that stringent conditions would be imposed on U.K. domestic policy.

The Chairman observed that the Bank of England would make a public announcement of the credit package at 10:30 a.m. EDT on Monday, June 7, and that the Federal Reserve and the Treasury would issue a joint announcement regarding United States participation at the same time. He then read the text of the planned System-Treasury announcement. (A copy is attached to this memorandum.)

During the course of the Chairman's remarks copies were distributed of a message to Chairman Burns that had been received from Governor Richardson of the Bank of England, setting forth the terms of the agreement, the text of the proposed Bank of England announcement, and the shares in the standby credit of each participant.^{1/} (A copy is attached to this memorandum.)

Chairman Burns subsequently responded to questions about details of the negotiations and the final agreement. The session concluded shortly after 10:30 p.m.

Attachments

^{1/} The participants listed in Governor Richardson's message did not include France, which agreed to join later.

For immediate release

June 7, 1976

The Federal Reserve System and the Treasury Department have today announced that they will participate with central banks of other Group of Ten countries, Switzerland, and the Bank for International Settlements in making available to the Bank of England standby credits totalling \$5 billion. These arrangements have been made in the light of the recent fall in the value of the pound sterling under exchange market pressures which have led to disorderly market conditions, and in the common interest in the stability and efficient functioning of the international monetary system.

Of the total amount, the Federal Reserve System will stand ready to make available \$1 billion under its existing \$3 billion reciprocal currency arrangement with the Bank of England, and the Treasury, through the Exchange Stabilization Fund, will stand ready to make available \$1 billion under a swap arrangement with the Bank of England.

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TO THE FEDERAL RESERVE BOARD WASHINGTON DC

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

CONFIDENTIAL FOR BURNS FROM RICHARDSON

1976 JUN -7 00:00

REFERENCE OUR TELEPHONE CONVERSATIONS:

SECRET
OFFICE OF THE

1. WE HAVE SIGNED AN AGREEMENT WITH THE US TREASURY - IN WHICH THE FEDERAL RESERVE BANK OF NEW YORK ARE DESIGNATED AS AGENT - FOR DOLLARS 1,000 MILLION. CONDITIONS AS FOR THE RECIPROCAL SWAP AGREEMENT.

2. WE UNDERSTAND THAT YOU ARE PREPARED TO PLACE A FACILITY OF DOLLARS 1,000 MILLION, IN THE FRAMEWORK OF THE RECIPROCAL SWAP AGREEMENT, AT THE DISPOSAL OF THE BANK OF ENGLAND, FOR THREE MONTHS FROM 7TH JUNE: THE FACILITY COULD BE EXTENDED BY MUTUAL AGREEMENT FOR A FURTHER THREE MONTHS. DRAWINGS WOULD BE IN THE FORM OF THREE MONTHS US DOLLAR STERLING SWAPS. BY MUTUAL AGREEMENT SWAPS COULD BE EXTENDED FOR A FURTHER THREE MONTHS ALWAYS PROVIDED THAT NO SWAP, ORIGINAL OR RENEWED, SHOULD MATURE LATER THAN 9TH DECEMBER 1976. OTHER CONDITIONS AS IN THE RECIPROCAL SWAP AGREEMENT.

3. ANY DRAWINGS AND REPAYMENTS BY THE BANK OF ENGLAND ON THIS FACILITY SHALL BE IN APPROXIMATE PROPORTION TO DRAWINGS AND REPAYMENTS ON OTHER FACILITIES PLACED AT THE BANK OF ENGLAND'S DISPOSAL ON 7TH JUNE BY MEMBERS OF THE GROUP OF TEN PLUS SWITZERLAND. THIS CONDITION ALSO APPLIES TO THE AGREEMENT WITH THE US TREASURY.

4. PLEASE CONFIRM.

5. I HAVE THE ASSURANCE OF THE CHANCELLOR OF THE EXCHEQUER THAT IF IT IS NECESSARY, IN ORDER TO REPAY THE SWAPS UNDER THIS FACILITY, THE UNITED KINGDOM WILL MAKE FURTHER DRAWINGS FROM THE INTERNATIONAL MONETARY FUND.

6. UNLESS YOU HEAR TO THE CONTRARY THE FOLLOWING STATEMENT WILL BE RELEASED BY THE BANK OF ENGLAND AT 15H.30 BRITISH SUMMER TIME: "FINANCIAL AUTHORITIES FROM THE GROUP OF TEN COUNTRIES AND SWITZERLAND, TOGETHER WITH THE BANK FOR INTERNATIONAL SETTLEMENTS, NOTING THAT THE RECENT FALL IN THE VALUE OF STERLING UNDER EXCHANGE MARKET PRESSURE HAD LED TO DISORDERLY MARKET CONDITIONS WHICH CARRIED STERLING TO AN UNJUSTIFIED LEVEL, TODAY AGREED, IN THE COMMON INTEREST OF THE STABILITY ANDEFFICIENT FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM, TO MAKE AVAILABLE TO THE BANK OF ENGLAND A STANDBY CREDIT OF DOLLARS 5 BILLION."

7. CONFIRMATION OF RELEASE WILL BE SENT BY TELEX.

8. THE SHARES IN THE STANDBY ARE AS FOLLOWS:-

USA:	DOLLARS 2,000 MN.
GERMANY:	DOLLARS 800 MN.
JAPAN:	DOLLARS 600 MN.
SWITZERLAND:	DOLLARS 600 MN.
CANADA:	DOLLARS 300 MN.
BELGIUM:	DOLLARS 200 MN.
NETHERLANDS	DOLLARS 200 MN.
SWEDEN:	DOLLARS 150 MN.
BANK FOR INTERNATIONAL SETTLEMENTS	DOLLARS 150 MN.
TOTAL	DOLLARS 5,000 MN.

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FEDERAL RESERVE SYSTEM
BOARD OF GOVERNORS

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