



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

REC'D 'N RECORDS SECTION
JAN 9 1962

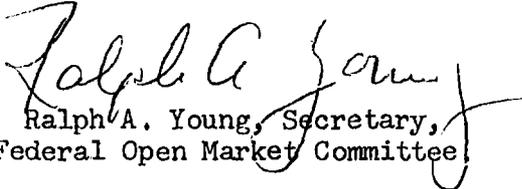
January 8, 1962.

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Young

There is enclosed a copy of a letter dated January 8, 1962, from Mr. Robert H. Knight, General Counsel of the Treasury, transmitting a copy of his opinion to Secretary Dillon with regard to the power under existing legislation of the Federal Reserve System to conduct operations in foreign currencies under the proposed plan being considered by the Federal Open Market Committee.


Ralph A. Young, Secretary,
Federal Open Market Committee

Enclosures:



THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON

REC'D	RECORDS SECTION
JAN 9 1962	
January 8, 1962	

Dear Howard:

With Secretary Dillon's approval, I am forwarding herewith to you for transmittal to the Federal Open Market Committee a copy of my opinion to Secretary Dillon with regard to the power under existing legislation of the Federal Reserve System to conduct operations in foreign currencies under the proposed plan now being considered by the Federal Open Market Committee. As you will note in the opinion, I am authorized to state that the Attorney General concurs in my opinion which in turn concurs generally in your opinion of November 22, 1961; to the Federal Open Market Committee on the same subject.

I should like to add my expression of appreciation for the superior job which was performed in rendering your opinion, which greatly simplified my task and, I am advised, the task of the Attorney General in our separate investigations of the subject.

With best wishes,

Sincerely,



Robert H. Knight

Honorable Howard H. Hackley
General Counsel, Board of Governors
of the Federal Reserve System
Federal Reserve Building
Washington 25, D. C.

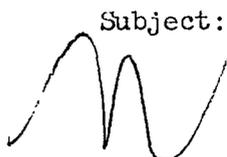
Enclosure

FILED IN RECORDS SECTION
MAY 19 1964

MEMORANDUM TO THE SECRETARY:

DATE 1962

From: Robert H. Knight

Subject:  Opinion re power under existing legislation of Federal Reserve System to conduct operations in foreign currencies under a proposed plan.

You have asked my opinion as to the power of the Federal Reserve System to open and maintain accounts in foreign currencies in certain foreign countries with foreign central banks or official agencies of foreign governments, and to conduct operations in foreign currencies in accordance with a proposed plan now being considered by the Federal Open Market Committee. More specifically, you have asked if I concur in the opinion of the General Counsel of the Board of Governors of the Federal Reserve System (who is also General Counsel of the Federal Open Market Committee) as set forth in his confidential memorandum, denominated Paper No. 6, and dated November 22, 1961.

I conclude that a Federal Reserve Bank may under existing law open and maintain accounts with foreign central banks, that it may do so through cross credits, sales of gold under Treasury license to foreign central banks, or transfer of credit to or from the accounts through either spot or forward purchases or sales of cable transfers of foreign currencies in the open market, and through purchase or sale of foreign currencies direct from or to the Exchange Stabilization Fund of the Treasury. Additionally, in my opinion such foreign currencies held in such accounts could be invested in foreign bills of exchange and acceptances arising out of actual commercial transactions and having maturities of not more than 90 days from date of purchase, and in time deposits with foreign central banks. I have also ascertained that foreign currencies in such accounts may properly be utilized to purchase other currencies, e.g., francs may be used to acquire deutsche marks.

I further agree with the General Counsel of the Board of Governors that, should it be determined to be desirable for the Federal Reserve System to make investments in bills having maturities over 90 days, or in foreign Treasury bills or other similar foreign

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer
Surname	Knight	Roosa	LEDDY		Muehlhaus
Initials	RHK	RR	JL		

government obligations, it would be necessary to obtain specific legislative authority before such investments could legally be made.

In sum, I concur with the conclusions reached by the General Counsel of the Federal Reserve Board as set forth in conclusions 1, 2, 3, 4, 5, 6 and 8. I have not thought it appropriate to investigate the legal conclusions of the aforesaid General Counsel set forth in his conclusions 7 and 9 relating generally to the division of responsibilities between elements of the Federal Reserve System.

Additionally, I have asked the Department of Justice as to whether the Attorney General concurs in my opinion and am authorized by that Department to state that he does.

With your approval I will send a copy of this opinion to the General Counsel of the Federal Reserve Board for transmittal to the Federal Open Market Committee.

A handwritten signature in black ink, appearing to read "Paul H. Knight". The signature is written in a cursive style with a long vertical stroke extending downwards from the end.