



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

April 28, 1967.

CONFIDENTIAL (FR)

To: Federal Open Market Committee
From: Robert C. Holland

Attached for the Committee's information is a paper on "Alternative Policies on the Disclosure of System Operations in Foreign Currencies," which has been prepared by the Board's staff in response to a request made at the last meeting of the Committee.

A handwritten signature in cursive script, appearing to read "Robert C. Holland".

Robert C. Holland, Secretary,
Federal Open Market Committee.

Attachment.

MAY 1 1967CONFIDENTIAL (FR)

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Alternative Policies on the Disclosure of
System Operations in Foreign Currencies

In recent discussions in the Federal Open Market Committee, questions have been raised as to whether it would be desirable to publish information on System operations in foreign currencies more promptly, in greater detail, and more systematically than at present. This paper summarizes present publication practices, sets forth the major considerations that must be weighed in considering changes in these practices, and presents possible alternative policy positions for consideration by the Committee. The range among alternatives is not wide. Given the scope of the information that is already being published, the open questions relate mainly to the timing of reports on operations undertaken at the initiative of foreign central banks and to the degree of systematic detail in which all transactions are reported.

The System's policy with respect to the timing and extent of disclosure of the foreign currency operations to which it is a party must be formulated in the light of general U.S. standards for publication of information on international transactions as well as in the light of the particular characteristics and objectives of the foreign currency operations. In some instances, these two sets of considerations may point to opposite conclusions as to the appropriate System policy regarding publication; in others, they may reinforce each other.

CONFIDENTIAL (FR)

- 2 -

Existing practice

The United States publishes a wide range of monthly and quarterly data on international transactions as soon as they become available. A policy of publishing such information promptly and in detail serves in the long run to strengthen the international financial position of the United States, by making our overall position as an international banking and reserve center open for all to see, and by facilitating economic analysis of the developing situation.

However, publication of certain types of data is lagged, and some detailed statistics are not published at all. In some cases where full statistical data are not published regularly or promptly, information on transactions is provided through periodic or ad hoc reports. For example, some information on U.S. foreign currency operations that is not reported in regular statistical series is provided through periodic reports (see below), and information on transactions subject to the Interest Equalization Tax is provided exclusively on an ad hoc basis (via occasional statements, articles, or testimony) rather than in regular statistical reports.

Where statistical data are published regularly, this fact often serves to shape the content of the periodic or ad hoc reports. If the reports are to be regarded as accurate accounts of all major transactions, it is desirable to include in them explanations of the main developments that can be seen or inferred by reference to the statistics.

CONFIDENTIAL (FR)

- 3 -

Publication of data on U.S. foreign currency holdings.

Statistics on U.S. holdings of foreign currencies, or on changes in these holdings, are published in a number of sources:

Federal Reserve Bulletin:

- (a) Monthly, with a lag of one month, total System holdings of foreign currencies, in the consolidated condition statement of all Federal Reserve Banks. (See table from March 1967 Bulletin, attached.) The table also shows total System holdings on each Wednesday in the preceding month. (The Board's weekly mimeographed release shows a total labeled "other assets" which includes the System's holdings of foreign currencies, but the latter are not shown separately.)
- (b) Monthly, with a lag of one month, total U.S. (System plus Treasury) holdings of foreign currencies, as a part of U.S. monetary reserves. (See table attached.)
- (c) Monthly, with a lag of four months, System holdings of individual foreign currencies. (See table attached.)

Treasury Bulletin: Item (b) above, plus a quarterly balance sheet for the Exchange Stabilization Fund, showing holdings of individual foreign currencies. The balance sheet is published with a lag of four months. Treasury holdings of individual currencies other than Stabilization Fund holdings are not separately published.

Survey of Current Business: Quarterly, with a lag of three months, changes in total U.S. holdings of foreign currencies included in U.S. monetary reserves, with separate figures for the currencies of the United Kingdom, Canada and Western Europe (and other areas, if currencies of countries in those areas are included in U.S. monetary reserves).

CONFIDENTIAL (FR)

- 4 -

Publication of the above statistical data according to current schedules reflects the need for prompt reporting of U.S. balance of payments transactions, and for regular reporting of financial condition by the Federal Reserve Banks and the Treasury Stabilization Fund. The Treasury, in consultation with the Board's staff, has recently reviewed the schedule for publication of total U.S. foreign currency reserves, recognizing that these figures may provide indications of the amount of U.S. support provided for foreign currencies (especially sterling), and has determined that the present monthly publication schedule represents an appropriate balancing of various U.S. interests.

More frequent publication than at present of the Federal Reserve portion of total U.S. foreign currency holdings would not necessarily aid in interpretation of international developments. It might well be misleading, since total U.S. holdings might change differently, and since changes in U.S. reserve assets often need to be considered in conjunction with changes in liabilities which are compiled and published only monthly.

The appropriateness of the 4-month lag with which System holdings of individual currencies are now published is perhaps less easy to determine. The lag has been sufficient so that there has been no case in which it could be shown that publication impaired the effectiveness of official operations. On the other hand, the

CONFIDENTIAL (FR)

- 5 -

publication schedule has been acquiesced in rather reluctantly by some foreign central banks, so that attempts to shorten the lag might prove difficult. As in the case of total holdings, it would be difficult for the public to evaluate the significance of changes in System holdings of any particular foreign currency without some knowledge of changes in Treasury holdings of that currency, and the Treasury also applies a 4-month lag to such data.

Somewhat paradoxically, the publication of data on System holdings of individual foreign currencies (and even of the total, when the nature of large changes may be surmised) often throws more light on transactions initiated by foreign central banks than on System-initiated drawings. When a foreign central bank draws on a swap, the System acquires the foreign currency and is likely to hold it, and thus to report an increase in its holdings. In contrast, when the System draws, the currency drawn is generally used immediately, and no change in published holdings occurs.

Reports of the Special Manager

The principal means of reporting and explaining System operations is through the semi-annual reports of the Special Manager (published in the Federal Reserve Bulletin and in the Monthly Review of the Federal Reserve Bank of New York) and in the section of the Board's Annual Report that deals with foreign exchange operations, also prepared by the Special Manager. The semi-annual reports,

CONFIDENTIAL (FR)

- 6 -

published in March and September, supply the public with an explanation and interpretation of the main transactions in foreign currencies over the preceding period, both from an overall view and with respect to specific currencies. Because the reports are semi-annual, most of the transactions they describe are reported with a lag (which will vary, depending on the date of the transaction); in many instances, there will already have been published some evidence of a transaction in the regular statistical series noted above.

The reports of the Special Manager on occasion provide data that would not be published in the regular statistical series (e.g., information on forward transactions and positions), but at times they have refrained from commenting on transactions that have been or will be revealed in published statistics. The reports have regularly included mention of System use of swap lines, but generally have not given a systematic month-by-month account of such transactions. They have not always provided details on use of swap lines by others in the period under review. They have provided only partial information on System and Treasury acquisitions of sterling and have not mentioned that a portion was held under guarantees from the Bank of England. They have not given the amount of System and Treasury commitments on forward lira contracts, except through retrospective reports after commitments had been eliminated. Aside from the

CONFIDENTIAL (FR)

- 7 -

forward lira contracts, all of the transactions on which detailed information has not been provided have been reflected in published statistics in due course, to the extent that the balances were held on reporting dates. And, again aside from the forward lira contracts, almost all of these transactions were undertaken at the initiative of the partner country for the purpose of supporting its currency.

Although no such occasions have arisen so far, there might be circumstances under which the System might wish to delay publication of information regarding its use of swap facilities or other spot exchange transactions in order to avoid the danger of provoking speculation. Similarly, there have been occasions on which partner countries that have used swap lines have not wished to have the System describe these operations except with a considerable lag.

Alternative policy positions

Committee discussion on publication of information regarding foreign currency operations to which the System is a party has revealed a considerable area of agreement on the material appropriate for inclusion in the reports of the Special Manager. Differences of opinion have arisen mainly with respect to the timing of reporting of operations, especially those initiated by foreign countries, and with respect to the degree of systematic detail in which foreign exchange transactions are reported--whether initiated

CONFIDENTIAL (FR)

- 8 -

by the System or by its partner countries. The range of differences on timing may be illustrated by two statements of possible alternative policy positions.

- A.1. Continue present practice regarding the timing of publication in the reports of the Special Manager, which generally involves a presumption of reasonably prompt reports on all transactions, but which leaves the decision on the timing of disclosure of foreign-initiated transactions largely to the foreign central bank.
- A.2. Establish a stronger presumption of regular disclosure of all transactions to which the System is a party in the reports of the Special Manager, and convey to foreign central banks the Committee's desire that, except in unusual circumstances, no objection be interposed to disclosure of their transactions with the System in the regular reports of the Special Manager. The possibility of exceptional circumstances calling for unusual delays could be recognized explicitly.

The first of these alternatives would continue to make publication of information on foreign-initiated transactions with the System, apart from the regular statistical tabular presentation, essentially subject to veto by the foreign central bank; the second would make publication essentially automatic. The second alternative might, however, lead some foreign central banks to forego transactions with the System in some circumstances. If this led in turn to a reduction in the scope for inter-central bank cooperation, it might involve costs for the System that would need to be weighed against the advantages of prompt publication.

CONFIDENTIAL (FR)

- 9 -

Questions of the appropriate timing of publication and of the detail in which information is released are not entirely separable. Prompt publication of selected information might meet the System's responsibilities to provide timely information, and such publication could then be supplemented by later release of fuller details. But there may be differences of view on the standard toward which the System should be aiming; these differences may be pointed up by statements of possible alternative policy positions.

- B.1. Continue present practices, which include, in addition to the regular tables in the back of the Federal Reserve Bulletin, some tabular summaries of annual transactions in the Board's Annual Report and in some 6-monthly articles, and textual description of the main operations, but which do not include systematic monthly or quarterly information on the transactions.
- B.2. Attempt to move toward a level of detail of reporting and analysis essentially comparable to that provided in the Bulletin table on "Transactions of the System Open Market Account" (see attached table from March Bulletin), while recognizing the need to allow for exceptions in some circumstances.

The extension of Alternative B.2. to include data on forward operations as well as on spot transactions, while it would enhance the System's reputation for full and accurate reporting, might substantially reduce the effectiveness of System forward operations and on occasion might vitiate them entirely.

Attachments 3.

REC'D IN RECORDS SECTION
MAY 1 1967

CONSOLIDATED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS
(In millions of dollars)

Item	Wednesday					End of month		
	1967					1967		1966
	Feb. 22	Feb. 15	Feb. 8	Feb. 1	Jan. 25	Feb.	Jan.	Feb.
Assets								
Gold certificate account	10,797	10,843	10,838	10,838	10,823	10,796	10,838	11,709
Redemption fund for F.R. notes	1,833	1,831	1,834	1,840	1,845	1,830	1,840	1,723
Total gold certificate reserves	12,630	12,674	12,672	12,678	12,668	12,626	12,678	13,432
Cash	354	353	347	350	335	356	346	190
Discounts and advances:								
Member bank borrowings	387	364	827	63	412	165	71	295
Other								20
Acceptances:								
Bought outright	78	78	76	74	76	76	73	73
Held under repurchase agreements	98	49	50			37		49
Federal agency obligations—Held under repurchase agreements	75	48	3					
U.S. Govt. securities:								
Bought outright:								
Bills	12,041	12,135	12,135	11,837	12,098	12,119	11,612	8,768
Certificates—Special								
Other	4,351	4,351	4,351	4,351	4,351	4,351	4,351	
Notes	21,302	21,302	21,302	21,302	21,302	21,302	21,302	24,871
Bonds	6,199	6,199	6,199	6,199	6,199	6,199	6,199	6,550
Total bought outright	43,893	43,987	43,987	43,689	43,950	43,971	43,464	40,189
Held under repurchase agreements	684	743	551		240			
Total U.S. Govt. securities	44,577	44,730	44,538	43,689	44,190	43,971	43,464	40,189
Total loans and securities	45,215	45,269	45,494	43,826	44,678	44,249	43,608	40,626
Cash items in process of collection	7,205	8,032	7,151	7,165	7,008	6,703	6,833	6,103
Bank premises	107	107	107	107	108	107	107	102
Other assets:								
Denominated in foreign currencies	293	332	337	397	398	293	397	166
IMF gold deposited ¹	212	212	212	212	211	213	212	37
All other	263	244	492	459	435	286	455	243
Total assets	66,279	67,223	66,812	65,194	65,841	64,833	64,636	60,899
Liabilities								
F.R. notes	38,358	38,394	38,324	38,090	38,201	38,283	38,098	36,265
Deposits:								
Member bank reserves	19,785	19,754	21,021	18,964	19,776	18,916	18,773	18,014
U.S. Treasurer—General account	398	641	489	594	416	386	813	805
Foreign	129	127	135	152	148	145	148	140
Other:								
IMF gold deposit ¹	212	212	212	212	211	213	212	37
All other	415	215	236	219	213	219	225	209
Total deposits	20,939	20,949	22,093	20,141	20,764	19,879	20,171	19,205
Deferred availability cash items	5,492	6,420	4,809	5,432	5,379	5,153	4,839	4,012
Other liabilities and accrued dividends	232	238	241	222	224	225	222	196
Total liabilities	65,021	66,001	65,467	63,885	64,568	63,540	63,330	59,678
Capital Accounts								
Capital paid in	574	574	573	573	572	575	573	556
Surplus	570	570	570	570	570	570	570	551
Other capital accounts	114	78	202	166	131	148	163	114
Total liabilities and capital accounts	66,279	67,223	66,812	65,194	65,841	64,833	64,636	60,899
Contingent liability on acceptances purchased for foreign correspondents	189	182	181	172	174	201	173	135
U.S. Govt. securities held in custody for foreign account	7,319	7,371	7,275	7,205	7,186	7,334	7,141	7,850
Federal Reserve Notes—Federal Reserve Agents' Accounts								
F.R. notes outstanding (issued to Bank)	41,194	41,308	41,371	41,526	41,723	41,151	41,584	39,845
Collateral held against notes outstanding:								
Gold certificate account	6,700	6,700	6,750	6,750	6,450	6,700	6,750	6,660
Eligible paper	3	3	1	1	2	2	3	18
U.S. Govt. securities	36,326	36,326	36,326	36,326	36,986	36,326	36,376	34,638
Total collateral	43,029	43,029	43,077	43,077	43,438	43,028	43,129	41,316

¹ See note 2 to table at bottom of p. 474.

REC'D IN RECORDS SECTION

MAY 1 1967

CONVERTIBLE FOREIGN CURRENCIES HELD BY FEDERAL RESERVE BANKS

(In millions of U.S. dollar equivalent)

End of period	Total	Pounds sterling	Belgian francs	Canadian dollars	French francs	German marks	Italian lire	Japanese yen	Netherlands guilders	Swiss francs
1966—Mar.....	218	51	53	2	1	74	9	1	3	24
Apr.....	299	103	53	2	1	81	9	1	3	47
May.....	364	163	53	2	1	116	2	1	3	24
June.....	482	271	54	2	1	124	1	1	3	24
July.....	702	566	54	2	1	75	2	1	*	2
Aug.....	687	476	54	2	1	150	1	1	*	2
Sept.....	742	587	54	20	1	76	1	1	*	3
Oct.....	783	622	54	20	1	76	6	1	*	3
Nov.....	709	570	54	2	1	76	1	1	*	3

U.S. GOLD STOCK AND HOLDINGS OF CONVERTIBLE FOREIGN CURRENCIES BY U.S. MONETARY AUTHORITIES

(In millions of dollars)

Year	End of period			Changes in—		Month	End of period			Changes in—			
	Total	Gold stock ^{1,2}		Total	Total gold		Total	Gold stock ^{1,2}		Foreign currency holdings ⁴	Total	Total gold	
		Total ³	Treasury					Total ³	Treasury				
1954.....	21,793	21,793	21,713	.....	-298	-298	1966—Feb....	14,188	13,811	13,730	377	-262	.....
1955.....	21,753	21,753	21,690	.....	-40	-40	Mar....	14,297	13,738	13,634	559	109	-73
1956.....	22,058	22,058	21,949	.....	305	305	Apr....	14,190	13,668	13,632	522	-107	-70
1957.....	22,857	22,857	22,781	.....	799	799	May....	14,210	13,582	13,532	628	20	-86
1958.....	20,582	20,582	20,534	.....	-2,275	-2,275	June....	14,251	13,529	13,433	722	41	-53
1959.....	19,507	19,507	19,456	.....	-1,075	-1,075	July....	14,306	13,413	13,332	1,093	255	-116
1960.....	17,804	17,804	17,767	.....	-1,703	-1,703	Aug....	14,618	13,319	13,259	1,299	112	-94
1961.....	17,063	16,947	16,889	.....	-116	-857	Sept....	14,304	13,356	13,258	1,148	-114	37
1962.....	16,156	16,057	15,978	.....	99	-907	Oct....	14,324	13,311	13,257	1,213	20	-45
1963.....	15,808	15,396	15,513	.....	212	-348	Nov....	14,370	13,262	13,159	1,108	-154	-49
1964.....	15,903	15,471	15,388	.....	432	-125	Dec....	14,356	13,235	13,159	1,321	186	-27
1965.....	14,587	13,806	13,733	.....	781	-1,316	1967—Jan....	13,847	13,202	13,157	645	-709	-33
1966.....	14,356	13,235	13,159	.....	1,321	-571	Feb....	13,641	13,161	13,107	480	-206	-41

¹ Includes gold sold to the United States by the International Monetary Fund with the right of repurchase, which amounted to \$800 million on Feb. 28, 1967. Also includes gold deposit of IMF; see note 2.

² Beginning Sept. 1965, includes gold deposited by the IMF to mitigate the impact on the U.S. gold stock of purchases by foreign countries for gold subscriptions on increased IMF quotas. Amount outstanding was \$213 million on Feb. 28, 1967. The United States has a corresponding gold liability to the IMF.

³ Includes gold in Exchange Stabilization Fund.

⁴ For holdings of F.R. Banks only, see pp. 402 and 404.

⁵ Includes payment of \$344 million increase in U.S. gold subscription to the IMF.

⁶ Includes payment of \$259 million increase in U.S. gold subscription to the IMF.

NOTE.—See Table 11 on p. 483 for gold held under earmark at F.R. Banks for foreign and international accounts. Gold under earmark is not included in the gold stock of the United States.

See also NOTE to table on gold reserves.

REC'D IN RECORDS SECTION

MAY 1 1967

TRANSACTIONS OF THE SYSTEM OPEN MARKET ACCOUNT

(In millions of dollars)

Month	Outright transactions in U.S. Govt. securities by maturity											
	Total			Treasury bills			Others within 1 year			1-5 years		
	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Exch., maturity shifts, or redemptions	Gross purchases	Gross sales	Exch. or maturity shifts
1966-Jan.....	894	919	228	894	919	228						
Feb.....	1,114	979	171	1,070	979	171	33		957	11		-957
Mar.....	960	314	101	873	314	101	78			9		144
Apr.....	929	748	201	887	748	201	18			25		
May.....	1,208	392	50	1,174	392	50			-281	34		281
June.....	1,448	650	110	1,296	650	110	55		108	88		-108
July.....	2,607	2,489		2,526	2,489					29		
Aug.....	1,602	1,273	98	1,602	1,273	98			84			76
Sept.....	1,976	1,419	170	1,976	1,419	170						
Oct.....	1,281	893	320	1,281	893	320						
Nov.....	860	223	323	860	223	323						-6,253
Dec.....	771		405	736		405	15			12		
1967-Jan.....	904	656	439	904	656	439						

Month	Outright transactions in U.S. Govt. securities—Continued						Repurchase agreements (U.S. Govt. securities)		Net change in U.S. Govt. securities	Federal agency obligations (net repurchase agreements)	Bankers' acceptances		Net change ¹
	5-10 years			Over 10 years			Gross purchases	Gross sales			Out-right, net	Under repurchase agreements, net	
	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts							
1966-Jan.....							1,595	1,545	-203		-2	-75	-280
Feb.....							272	611	-376			12	-365
Mar.....			-144				222	222	545		3	1	549
Apr.....							682	682	-20		4	30	14
May.....							421	421	766		-1	20	786
June.....	8						185	185	689		2	58	748
July.....	39			12			120	26	212		-30	-157	24
Aug.....			-160				364	457	138		-3		135
Sept.....							97	97	388		-1		387
Oct.....							275	275	69		4	21	94
Nov.....			-203				1,775	1,153	937		3	56	996
Dec.....	3			5			3,751	3,746	370	34	15	47	466
1967-Jan.....							1,693	2,320	-818	-34	4	-124	-972

¹ Net change in U.S. Govt. securities, Federal agency obligations, and bankers' acceptances.

NOTE.—Sales, redemptions, and negative figures reduce System holdings; all other figures increase such holdings.