



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

June 18, 1969

CONFIDENTIAL (FR)

TO:       Federal Open Market Committee  
FROM:      Mr. Holland

There is enclosed a copy of a memorandum from the Special Manager dated today and entitled "Request for a more liberal interpretation of the \$1 billion warehousing facility for the Stabilization Fund."

A handwritten signature in black ink, appearing to read "Robert C. Holland".

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

Enclosure

June 18, 1969.

To: Federal Open Market Committee      Subject: Request for a more  
From: Charles A. Coombs                   liberal interpretation of the  
    \$1 billion warehousing facility  
    for the Stabilization Fund.

Net cash requirements of the Treasury's Exchange Stabilization Fund for foreign exchange operations since April 1 have totaled \$641 million. The major requirements of the Fund during the period related to transactions with France, including gold purchases from that country totaling \$275 million and full utilization by the French of their \$200 million credit line with the Treasury. The Fund financed its cash requirements with \$446 million from existing balances and \$195 million through warehousing of guaranteed sterling with the System.

Prospects are that the Stabilization Fund's cash requirements during the summer months will continue to be substantial, especially if, as is quite likely, the French wish to sell the Treasury additional gold. The possibility of any significant cash flow to the Fund at the same time is slim: the French will no doubt wish to renew their commitments to the Treasury as these fall due beginning in July, and the British position is such that we can anticipate additional requests for renewals of their \$350 million in commitments to the Treasury. At the moment, the Stabilization Fund's cash balance is less than \$20 million, as nearly \$800 million of the Fund's resources are held in gold. While the Fund could monetize some of the gold, a decision on that question has not yet been made and obviously considerations other than the Stabilization Fund's cash position are important in

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this regard. Thus, pending some disposition of Stabilization Fund gold, we can expect requests for additional warehousing operations in coming months. However, the System's ability to assist the Fund is quite limited under current interpretations governing the \$1 billion warehousing authorization. At present, \$650 million of the authorization is understood to be available only for financing U.S. participation in the Second Sterling Balances Arrangement, leaving only \$350 million for financing other operations of the Fund. With \$195 million already utilized, the Fund could exhaust in short order the \$155 million still available for general purposes.<sup>1/</sup>

The Treasury has, therefore, asked me to explore with the Committee the possibility of increasing the amount of financing available without limitation as to purpose through warehousing of the Stabilization Fund's foreign currency assets. In view of the nature of the operations thus far requiring use of the facility,

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1/ The warehousing authority was increased from \$200 million to \$350 million on November 14, 1967, and to \$1 billion on September 24, 1968 (in accordance with an action by the Committee on July 18, 1968). The November 1967 action was for the purpose of facilitating System warehousing of Stabilization Fund holdings of guaranteed sterling arising out of the credit package negotiated at that time; the July 1968 action was in connection with the Second Sterling Balances Arrangement. Although no specific limitations were incorporated in the language of the foreign currency authorization relating to warehousing, the staff's interpretation has been that only the \$200 million authorized before November 1967 is available for warehousing currencies other than guaranteed sterling, and that the \$650 million authorized in 1968 is available only for warehousing sterling acquired by the Treasury under the Second Balances Arrangement.

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and those in prospect, it seems appropriate to me to make such additional funds available. I recommend that to accomplish this the Committee temporarily liberalize the informal guidelines governing use of the existing \$1 billion warehousing authorization to permit use of the full facility for the general purposes of the Stabilization Fund without limitation as to currency.

Acceptance by the Committee of this recommendation would mean that for the time being (1) the System might warehouse currencies for the Stabilization Fund up to the full \$1 billion authorization for purposes unrelated to the Second Sterling Balances Arrangement, and (2) the present understanding that not more than \$200 million of currencies other than guaranteed sterling may be used in warehousing operations would be waived. Experience last fall demonstrated that fairly substantial drawings by the United Kingdom under the Second Sterling Balances Arrangement can be financed by the BIS without recourse to standby credits with official institutions. Currently, the BIS is in good position to finance any new British drawings that might result from declines in the sterling balances. Nevertheless, the potential Treasury commitment remains in force and it is conceivable that in the event of very large drawings by the British, the BIS might have to activate the standby facility. In such an event, if the Stabilization Fund had drawn heavily on the warehousing facility, it is possible that it could prove necessary

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to ask the Committee to increase the overall size of the arrangement. Such a combination of events seems rather unlikely, however, and I do not anticipate that a request of this kind will prove necessary. Thus a simple liberalization of the use of the existing authority should prove ample to meet foreseeable needs for warehousing.

**STRICTLY CONFIDENTIAL (FR)**

**SWAP ARRANGEMENTS BETWEEN THE SYSTEM  
AND FOREIGN CENTRAL BANKS**  
June 18, 1969

Listed below as of June 18, 1969, are the swap arrangements concluded on behalf of the Federal Reserve System with foreign banks.

<u>Foreign bank</u>	<u>Amount of Agreement (millions of dollars)</u>	<u>Maturity of latest authorized renewal</u>
Austrian National Bank	100	December 2, 1969
National Bank of Belgium	300	December 22, 1969
Bank of Canada	1,000	December 30, 1969
National Bank of Denmark	100	December 2, 1969
Bank of England	2,000	December 2, 1969
Bank of France	1,000	December 26, 1969
German Federal Bank	1,000	December 16, 1969
Bank of Italy	1,000	December 30, 1969
Bank of Japan	1,000	December 2, 1969
Bank of Mexico	130	December 2, 1969
Netherlands Bank	300	December 30, 1969
Bank of Norway	100	December 2, 1969
Bank of Sweden	250	December 2, 1969
Swiss National Bank	600	December 2, 1969
B.I.S.	1,600 ( 600) <u>(1,000)1/</u>	December 2, 1969 December 2, 1969 December 2, 1969
<b>Total</b>	<b>10,480</b>	

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1/ This reciprocal arrangement provides for swaps of dollars against authorized European currencies other than Swiss francs.

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As of June 18, drawings on the above arrangements are outstanding in the amounts indicated below:

**Drawings Outstanding on Swaps**

<u><b>Arrangements with</b></u>	<u><b>Initiated by System</b></u> <u>(millions of dollars equivalent)</u>	<u><b>Initiated by foreign bank</b></u> <u>(millions of dollars)</u>
Austrian National Bank	0	50
Bank of England	0	1,140
Swiss National Bank	95	0
National Bank of Belgium	0	115.5
National Bank of Denmark	0	50
Netherlands Bank	0	82.2
<b>Total</b>	<b>95</b>	<b>1,437.7</b>