

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

July 27, 1972

STRICTLY CONFIDENTIAL (FR)

To: Federal Open Market Committee

From: Arthur L. Broida

Enclosed for your information is a copy of a memorandum for the record dated today and entitled "Sub-committee actions relating to German swap line."

Arthur L. Broida
Deputy Secretary

Federal Open Market Committee

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Enclosure

STRICTLY CONFIDENTIAL (FR)

July 27, 1972

To: FOMC Records Subject: Subcommittee actions

relating to German

From: Arthur L. Broida LIK swap line.

1. On April 18, 1972, the Federal Open Market Committee authorized a Subcommittee, consisting of the Chairman and Vice Chairman of the Committee and the Vice Chairman of the Board of Governors, or designated alternates, to act on its behalf with respect to the terms of settlement of the outstanding System swap drawings on the German Federal Bank.

On July 18, 1972, the Subcommittee approved the recommendation of the Special Manager, contained in his memorandum to the Subcommittee dated July 17, 1972 (copy attached), to accept terms of settlement proposed by the German Federal Bank on the express understanding that such acceptance in no way implied System agreement with the Bank's position, but instead represented a compromise solution. The outstanding drawings were subsequently settled on the proposed terms.

2. Late in the day on July 25, 1972, the Special Manager consulted with the members of the Subcommittee regarding a basis proposed by the German Federal Bank for reactivation of the System's swap line with that Bank. The language proposed by the German authorities was as follows:

^{1/} As the Special Manager reported at the FOMC meeting of June 20, 1972, in response to a routine telex from the System suggesting extension of the standby swap line for another six-month period when it matured on June 15, 1972, the German Federal Bank had proposed the following qualifying language: "We understand that it is not likely that the two sides will make use of the swap facility. Should they, however, do so, they will in every case decide by common consent whether the present clause concerning a change in parity, or any other clause, will apply." As Mr. Coombs indicated, following consultation with the Subcommittee the New York Bank had agreed to renewal of the swap line on that basis.

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"We agree to deletion of revaluation clause on the understanding that the Bundesbank would be prepared to reinstate the revaluation clause in the event that the mark should be revalued in isolation among the G-10 currencies."

The Special Manager advised the Subcommittee members that the U.S. Treasury had no objection to this language, and he recommended its acceptance. They concurred in his recommendation, and the Special Manager therupon advised the German Federal Bank that the language in question was agreeable to the Federal Reserve.

This action was taken under the terms of paragraph 6 of the Authorization for System foreign currency operations, which authorizes the Subcommittee to act on behalf of the Committee when it is necessary to enable the New York Bank to engage in foreign currency operations before the Committee can be consulted. Activation of the System's swap line with the German Federal Bank was deemed to be urgently required, so that the System would be in a position to draw marks on short notice should it appear desirable to engage in further open market operations in marks under the program initiated on July 19, 1972; and the scheduled timing of certain consultations contemplated by the German authorities required an immediate response by the System to their proposal.

Attachment

Authorized for public release by the FOMC Secretariat on 8/21/2020

STRICTLY CONFIDENTIAL (F.R.)

FEDERAL RESERVE BANK

OFFICE CORRESPONDENCE

	DATE
To Chairman Burns, Vice Chairman Hayes	subject: Settlement of swap
and Governor Robertson	
FROM C. A. Coombs	with Bundesbank

On May 30, 1972 following approval by the FOMC Subcommittee, I wrote to Mr. Tungeler of the Deutsche Bundesbank reiterating the System's previously expressed view that the Bundesbank should honor the revaluation clause in the swap arrangement with respect to the outstanding \$50 million Federal Reserve swap drawing, and submitting to the Bundesbank a background paper setting forth the Federal Reserve position in some detail. The matter was subsequently discussed further during the course of the June Basle meeting by Messrs. Hayes, Daane and Coombs and representatives of the Bundesbank. Following that discussion, on June 15 the Bundesbank wrote to Mr. Hayes setting forth their view of the situation. Once again, the Bundesbank rejected the Federal Reserve view, arguing in essence that the revaluation clause should not apply because the swap originally matured during a period when the mark was floating, that such floating does not constitute revaluation, and that subsequent renewals of the swap do not change that situation. The arguments presented by the Bundesbank in its letter differ somewhat from those it had used in earlier discussion but, in my view, which is concurred in by counsel to this Bank and to the Committee, are no more persuasive than the earlier arguments. At the same time, the Bundesbank has reiterated its proposal first made in a letter from Dr. Emminger on April 12 to "compromise" by sharing 50 percent of the revaluation loss with

satisfactory resolution of this question, there is probably nothing to be gained from further discussion. In the interest of bringing the matter to a close, I recommend, therefore, that the Subcommittee authorize the Account Management to accept the Bundesbank's proposal on the express understanding that such acceptance in no way implies System's agreement with the Bundesbank's position, but instead represents a compromise solution.

For the convenience of the Subcommittee, I am attaching copies of the various documents referred to above.

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