

J. Brant

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 25, 1974

To Board Members (individually addressed)

Subject: _____

From Arthur L. Broida. *ChS*

Attached is a copy of a telegram being sent to the President-Members of the Federal Open Market Committee requesting votes on a proposed special Federal Open Market Committee authorization. Although you voted orally for the authorization this morning, it would be helpful for the record to have your initials below signifying your approval. After initialing please return this memorandum to my office.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 25, 1974

To FOMC Records

Subject: _____

From Arthur L. Broida *ALB*

During the course of a meeting of the Board of Governors this morning, the members present were informed of the contents of a message being transmitted to FOMC members (by telegram to the President-members) relating to a proposed special FOMC authorization for foreign currency operations in connection with disposition of assets and liabilities of Franklin National Bank. (A copy of the message is attached.) All of the Board members present (Governors Mitchell, Sheehan, Bucher, Holland, and Wallich) advised the Secretary of the Committee that they should be recorded, in their capacity as members of the FOMC, as voting to approve the proposed special authorization.

Later in the day Chairman Burns orally advised the Secretary that he also should be recorded as voting to approve the proposed authorization.

Attachment

September 25, 1974

STRICTLY CONFIDENTIAL (FR)

HAYES - NEW YORK
WINN - CLEVELAND
BLACK - RICHMOND
KIMBREL - ATLANTA
CLAY - KANSAS CITY

For your information, and as background for consideration of the proposed special FOMC authorization cited below, the Federal Reserve Bank of New York has developed a plan, after discussions with Franklin National Bank, to purchase the foreign exchange position of Franklin for the purpose of avoiding serious weakening of confidence in the foreign exchange markets.

According to the New York Bank's letter to the Board of today's date, Franklin's ability to deal in foreign exchange markets had been limited even before its foreign exchange losses had become public knowledge last spring, and that ability was further restricted after announcement of those difficulties. These problems were further compounded when Franklin's London branch found it impossible to deal in foreign exchange. At times the New York Reserve Bank has purchased foreign exchange on Franklin's behalf in order to permit it to honor maturing forward contracts.

STRICTLY CONFIDENTIAL (FR)

-2-

September 25, 1974

Although the earlier imbalances have been reduced with the passage of time, Franklin's exchange book remains a large operation, with purchases and sales of foreign currencies through August 1975 totaling about \$800 million in sterling, marks, Swiss francs, French francs, Dutch guilders, Belgian francs, lire, Canadian dollars and yen. There are still sizable imbalances in a number of these currencies, and there are about 300 contracts, with over 50 foreign parties and a number of domestic parties, yet to be fulfilled.

The New York Bank advises that, even under the best of international monetary conditions, failure of Franklin to perform on such a volume of international commitments could undermine foreign exchange market confidence and tarnish the reputation of United States banks in general. In today's circumstances, the consequences of such an action by Franklin would be much more serious, since confidence in interbank dealings has already been severely shaken by the losses and failures of smaller banks throughout the world, particularly the failure of the Herstatt Bank in Germany to honor its current foreign exchange commitments. Franklin's failure to honor its outstanding contracts would thus further deteriorate interbank confidence,

STRICTLY CONFIDENTIAL (FR)

-3-

September 25, 1975

and at the extreme, would risk producing a banking crisis, with inevitable losses to depositors and creditors, disruption of funds transfers and of credit commitments, as well as consequent losses of jobs and income. The fear of this kind of risk is shared by the central banks and treasuries of most major countries, and any reasonable action that can be taken to avoid such a risk would clearly be desirable.

In view of the delicate exchange market situation and Franklin's inability to manage its forward book in an orderly manner, Franklin and the Federal Reserve Bank of New York have discussed means of working out its forward exchange commitments. The New York Bank has been studying the situation in light of the future of Franklin, and has concluded that its assumption of Franklin's foreign exchange position would be in the best interest of the United States and world economies and the foreign exchange market.

Under a proposed agreement with Franklin National Bank, the New York Bank would assume Franklin's foreign exchange position. It would fulfill Franklin's exchange commitments, with the protection of a payment from Franklin based on the estimated value of Franklin's total position, as well as an estimate of the credit and other risks

STRICTLY CONFIDENTIAL (FR)

-4-

September 25, 1974

involved. When performance has been completed, the New York Bank would return to Franklin any funds remaining in excess of the amount paid by Franklin. If, however, the risks prove to be greater than estimated, and there are any losses incurred by the New York Bank, Franklin would indemnify the Bank for any such losses.

As part of the overall arrangements, in order to cover any shortfalls in Franklin's foreign exchange position, the New York Bank would need to purchase spot and forward foreign exchange. In addition, it contemplates the need for making a series of relatively short-term forward swaps with foreign central banks to bridge gaps over time in Franklin's position.

In its letter of today, the New York Bank has requested Board concurrence in the proposed arrangements, and the Board has responded affirmatively.

The Bank has also requested, through the Secretary, the Federal Open Market Committee's specific approval of the proposed purchases of foreign exchange and the proposed undertaking of the necessary forward swaps. In this connection, the text of a proposed special authorization by the Federal Open Market Committee is quoted below:

STRICTLY CONFIDENTIAL (FR)

-5-

September 25, 1974

"The Federal Reserve Bank of New York is authorized and directed, under the provisions of 270.4(e) of the Regulation relating to Open Market Operations of Federal Reserve Banks, to engage in such open market transactions in foreign currencies, including transactions for the System Open Market Account, as may be necessary to carry out the arrangements that have been made by the Federal Reserve Bank of New York, with the concurrence of the Board of Governors of the Federal Reserve System, for the disposition of assets and liabilities of the Franklin National Bank."

Please wire as soon as possible whether you vote to approve this special authorization. If you desire additional background information, you might telephone Mr. Coombs at the New York Bank, or Mr. Debs or Mr. Willey, both of whom are at the Board today and can be reached through my office.

BROIDA

ALB:ck

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 26, 1974

To Board Members (addressed individually)

Subject: _____

From Murray Altmann *M. A.*

In reply to yesterday's telegram transmitting the text
of a proposed special FOMC authorization, affirmative votes have
been received from all members of the Committee.

also sent to:

Mr. Bryant
Mr. Reynolds
Mr. Wonnacott
Mr. Partee
Mr. Axilrod
Mr. Coyne
Mr. O'Connell
Mr. Bernard
Mr. R. Solomon

T E L E G R A M

FEDERAL RESERVE COMMUNICATIONS SYSTEM

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON**

September 26, 1974

CONFIDENTIAL (FR)

**HAYES - NEW YORK
WINN - CLEVELAND
BLACK - RICHMOND
KIMBREL - ATLANTA
CLAY - KANSAS CITY**

**In reply to yesterday's telegram transmitting the text
of a proposed special FOMC authorization, affirmative votes have
been received from all members of the Committee.**

M. G.
ALTMANN

T E L E G R A M

FEDERAL RESERVE COMMUNICATIONS SYSTEM

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON**

September 26, 1974

CONFIDENTIAL (FR)

COOMBS - NEW YORK

For your information, the following wire was sent to FOMC

Members:

(here copy A)

**Affirmative votes on the resolution quoted in the wire have
been received from all members of the Committee.**



ALTMANN

T E L E G R A M

FEDERAL RESERVE COMMUNICATIONS SYSTEM

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON**

September 26, 1974

CONFIDENTIAL (FR)

HOLMES - NEW YORK

For your information, the following wire was sent to FOMC

Members:

(here copy A)

**Affirmative votes on the resolution quoted in the wire have
been received from all members of the Committee.**


ALTMANN