

OF THE  
FEDERAL RESERVE SYSTEM

REC'D IN RECORDS SECTION  
MAY 14 1979  
Date May 9, 1979  
Fomic: For Len Opa

# Office Correspondence

To Board Members (individually addressed)

Subject: \_\_\_\_\_

From Murray Altmann *M. A.*

Attached is a copy of a telegram being sent today to the President-Members of the FOMC. If you vote to approve the Manager's recommendation, please indicate by initialing below and returning this memorandum to my office.

\_\_\_\_\_

Attachment

FOR FOMC FILES  
S. Belton

*Date File*

MAY 14 1979  
*Fome For Cur Oper*  
*General*

**T E L E G R A M**

FEDERAL RESERVE COMMUNICATIONS SYSTEM

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
 WASHINGTON

May 9, 1979

STRICTLY CONFIDENTIAL (FR)  
CLASS I - FOMC

- VOLCKER - NEW YORK
- BLACK - RICHMOND
- KIMBREL - ATLANTA
- MAYO - CHICAGO
- BALLES - SAN FRANCISCO

Investment of the System's balances of Swiss francs has become a matter of concern, since short-term interest rates in the Euro-Swiss franc market recently have risen to something over 1 percent from near zero. Investment facilities available to the System have been virtually non-existent. In discussions with the Swiss National Bank, a proposal for investment of the balances has emerged. It involves (1) a transaction with the Swiss National Bank in which the System would sell francs spot and buy them forward; and (2) a repurchase agreement in which the System would acquire U.S. Treasury securities from the Swiss National Bank for the same period of time involved in the foreign currency transaction. The rate on the forward purchase of francs by the System would be adjusted so that, overall on the transactions, the rate of return to the System would equal that prevailing for comparable maturities in the Euro-Swiss franc market. In effect, the System would incur a loss on the foreign exchange part of the transaction to bring down the rate of return on the holdings of the U.S. Treasury bills to the rate on Euro-Swiss francs. Should the System need the francs for intervention purposes prior to maturity of the forward contract and RP, the currency swap and the RP could be terminated at any time.

FOR FOMC FILES  
 S. Belton

*File copy filed under Trans*  
*Will dated 5/14/79*      *Date File*

-2-

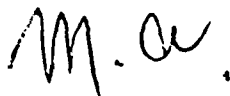
To provide authority to invest the System's balances of Swiss francs in this way, the Manager recommends the following change in paragraph 5 of the authorization for foreign currency operations, shown in capital letters and strike-through form.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. ~~Such investments shall be in accordance with Section 14(e) of the Federal Reserve Act.~~ WHEN APPROPRIATE IN CONNECTION WITH ARRANGEMENTS TO PROVIDE INVESTMENT FACILITIES FOR FOREIGN CURRENCY HOLDINGS, U.S. GOVERNMENT SECURITIES MAY BE PURCHASED FROM FOREIGN CENTRAL BANKS UNDER AGREEMENTS FOR REPURCHASE OF SUCH SECURITIES WITHIN 30 CALENDAR DAYS.

Chairman Miller concurs in the Manager's recommendation.

Please advise promptly whether you vote to approve the Manager's recommendation.

ALTMANN



FOR FOMC FILES  
S. Belton