



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

March 16, 1982

CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee

FROM: Murray Altmann *M. A.*

Attached is a copy of a memorandum from Mr. Truman dated March 8, 1982, and entitled "Renewal of Agreement to Warehouse Foreign Currencies for the ESF and the Treasury."

This memorandum will be considered at the forthcoming meeting of the Committee.

Attachment

CONFIDENTIAL (FR)
Class II - FOMC

March 8, 1982

TO: Federal Open Market Committee
FROM: Edwin M. Truman *EMT*
SUBJECT: Renewal of Agreement to Warehouse Foreign Currencies for the
ESF and the Treasury

At its meeting on January 17-18, 1977, the Committee agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies held by the Exchange Stabilization Fund (ESF) -- that is, to make spot purchases of foreign currencies from the ESF and simultaneously to make forward sales of the same currencies to the ESF -- if that should prove necessary to enable the ESF to deal with potential liquidity strains. It was also agreed that the agreement would be reviewed periodically, with reconsideration normally at the March organizational meetings.

On December 14, 1978, the Committee agreed to provide for the warehousing of currencies held directly by the Treasury as well as by the ESF. At its December 19, 1978 meeting the Committee agreed to raise the amount of eligible foreign currencies that the Federal Reserve would be prepared to warehouse for the ESF and the Treasury to \$5 billion equivalent. At its meeting on March 18, 1980, the Committee agreed to drop all time limits on such operations.

At present the amount of foreign currencies warehoused for the ESF and the Treasury totals \$1,927.6 million equivalent: \$1,556.6 million equivalent of Deutschemarks and \$371 million equivalent of Swiss francs. Over the past 12 months the total amount warehoused has been reduced by about \$2 billion, as the foreign currencies were used to redeem Carter

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notes. On July 26, 1981, the first Carter notes denominated in Swiss francs matured; the second and last Swiss franc notes mature on January 26, 1983. On September 1, 1981, the first Deutschemark-denominated notes matured, and another tranche matured on December 15; the last Deutschemark notes mature on July 26, 1983. Although some of the warehoused Deutschemarks may well be used to redeem the Carter notes maturing over the next 12 months, it is likely that the Treasury will continue to find it useful to have and to use the warehousing arrangement although probably on a declining scale.

The staff recommends that the \$5 billion warehousing agreement be renewed. The basic agreement will continue to be reviewed annually, normally at the March organizational meetings. Mr. Cross concurs in this recommendation.