



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20561

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

July 27, 1988

To: Federal Open Market Committee

Yen Purchases from
Japanese Ministry
of Finance

From: Normand Bernard *N.B.*

All members of the Committee have responded affirmatively to the recommendation by Mr. Cross for System participation in Exchange Stabilization Fund purchases of yen directly from the Japanese Ministry of Finance. A copy of Mr. Cross' recommendation is attached.

TO: MEMBERS OF THE FEDERAL OPEN MARKET COMMITTEE
FROM: SAM Y. CROSS
RE: OUTRIGHT PURCHASE OF YEN BY ESF AND FEDERAL RESERVE
SYSTEM

AS REFERRED TO DURING THE TELEPHONE MEETING ON JULY 20, THE TREASURY HAS NOW COMPLETED ARRANGEMENTS WITH THE JAPANESE MINISTRY OF FINANCE (MOF) TO PURCHASE DIRECTLY FROM THE MOF YEN IN AN AMOUNT OF \$2 BILLION EQUIVALENT, WITH A POSSIBLE ADDITIONAL \$1 BILLION EQUIVALENT TO BE DECIDED LATER. THE YEN WILL BE PURCHASED ON AN OUTRIGHT BASIS AT MARKET RATES. THESE TRANSACTIONS WILL NOT BE ANNOUNCED AT THIS TIME.

THE YEN EQUIVALENT OF THE INITIAL \$1 BILLION WILL BE ACQUIRED ON JULY 26 AND THE YEN EQUIVALENT OF THE SECOND \$1 BILLION WILL BE ACQUIRED IN FOUR WEEKLY INSTALLMENTS OF \$250 MILLION EACH DURING AUGUST. THE PURCHASE OF A THIRD \$1 BILLION EQUIVALENT, IF AGREED, WILL TAKE PLACE IN SEPTEMBER. IT IS PROPOSED THAT ONE-HALF OF THE YEN BE PURCHASED ON BEHALF OF THE TREASURY'S EXCHANGE STABILIZATION FUND (ESF) AND ONE-HALF BE PURCHASED ON BEHALF OF THE FEDERAL RESERVE SYSTEM. IN KEEPING WITH OUR STANDARD ARRANGEMENTS, THE YEN ACQUIRED WILL BE INVESTED IN A REPURCHASE FACILITY WITH THE BANK OF JAPAN. THE YEN PURCHASES WILL SERVE TO INCREASE U.S. OFFICIAL YEN RESERVES FOR POSSIBLE FUTURE USE. THE CURRENT LEVEL OF FEDERAL RESERVE SYSTEM YEN HOLDINGS IS APPROXIMATELY \$155 MILLION EQUIVALENT AND THAT OF THE ESF IS APPROXIMATELY \$700 MILLION EQUIVALENT.

I RECOMMEND THAT THE COMMITTEE APPROVE THESE ARRANGEMENTS WITH THE UNDERSTANDING THAT THE TRANSACTIONS NOT BE COUNTED AGAINST THE AUTHORIZED LIMITS IN THE PROCEDURAL INSTRUCTIONS.

CHAIRMAN GREENSPAN CONCURS IN THIS RECOMMENDATION.

IN VIEW OF THE FACT THAT THE INITIAL TRANSACTION IS TO TAKE PLACE ON TUESDAY, JULY 26, PLEASE ADVISE NORMAN BERNARD BY THE CLOSE OF BUSINESS ON TODAY WHETHER YOU CONCUR.