

The original documents are located in Box B98, folder “Swap Arrangements - General, 1970-75 (4)” of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

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STRICTLY CONFIDENTIAL (FR)

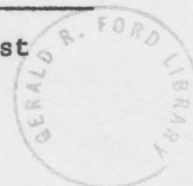
SWAP ARRANGEMENTS BETWEEN THE SYSTEM
AND FOREIGN CENTRAL BANKS

May 9, 1973

Listed below as of May 9, 1973, are the swap arrangements concluded on behalf of the Federal Reserve System with foreign banks.

<u>Foreign Bank</u>	<u>Amount of Agreement (millions of dollars)</u>	<u>Maturity of latest authorized renewal</u>
Austrian National Bank	200	December 3, 1973
National Bank of Belgium	600	December 21, 1973
Bank of Canada	1,000	December 28, 1973
National Bank of Denmark	200	December 3, 1973
Bank of England	2,000	December 3, 1973
Bank of France	1,000	December 28, 1973
German Federal Bank	1,000	December 14, 1973
Bank of Italy	1,250	December 31, 1973
Bank of Japan	1,000	December 3, 1973
Bank of Mexico	130	December 3, 1973
Netherlands Bank	300	December 28, 1973
Bank of Norway	200	December 3, 1973
Bank of Sweden	250	December 3, 1973
Swiss National Bank	1,000	December 3, 1973
B. I. S.	1,000(600) (1,000) <u>1/</u>	December 3, 1973 December 3, 1973
<hr/>		
Total	11,730	

1/ This reciprocal arrangement provides for swaps of dollars against authorized European currencies other than Swiss francs.



As of May 9, 1973, drawings on the above arrangements are outstanding in the amounts indicated below:

<u>Arrangements with</u>	<u>Initiated by System (millions of dollars equivalent)</u>	<u>Drawings Outstanding on Swaps</u>	
		<u>Initiated by foreign bank</u>	<u>Date since facility has been in con- tinuous use</u>
National Bank of Belgium	390	--	June 30, 1970
Swiss National Bank	565	--	May 19, 1971
B.I.S. (Swiss francs)	600	--	August 12, 1971
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Total	1,555		
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STRICTLY CONFIDENTIAL (FR)

SWAP ARRANGEMENTS BETWEEN THE SYSTEM
AND FOREIGN CENTRAL BANKS

June 13, 1973



Listed below as of June 13, 1973, are the swap arrangements concluded on behalf of the Federal Reserve System with foreign banks.

<u>Foreign Bank</u>	<u>Amount of Agreement (millions of dollars)</u>	<u>Maturity of latest authorized renewal</u>
Austrian National Bank	200	December 3, 1973
National Bank of Belgium	600	December 21, 1973
Bank of Canada	1,000	December 28, 1973
National Bank of Denmark	200	December 3, 1973
Bank of England	2,000	December 3, 1973
Bank of France	1,000	December 28, 1973
German Federal Bank	1,000	December 14, 1973
Bank of Italy	1,250	December 31, 1973
Bank of Japan	1,000	December 3, 1973
Bank of Mexico	130	December 3, 1973
Netherlands Bank	300	December 28, 1973
Bank of Norway	200	December 3, 1973
Bank of Sweden	250	December 3, 1973
Swiss National Bank	1,000	December 3, 1973
B. I. S.	1,000(600) (1,000) <u>1/</u>	December 3, 1973 December 3, 1973
<hr/>		
Total	11,730	

1/ This reciprocal arrangement provides for swaps of dollars against authorized European currencies other than Swiss francs.

As of June 13, 1973, drawings on the above arrangements are outstanding in the amounts indicated below:

<u>Arrangements with</u>	<u>Initiated by System (millions of dollars equivalent)</u>	<u>Initiated by foreign bank</u>	<u>Date since facility has been in con- tinuous use</u>
National Bank of Belgium	390	--	June 30, 1970
Swiss National Bank	565	--	May 19, 1971
B.I.S. (Swiss francs)	600	--	August 12, 1971
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Total	1,555		
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6/14

S. Call John Reynolds -- that he can inform
Treasury. (Retain the memo for
Dr. B's files)



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 14, 1973

To Chairman Burns

Subject: Status of Negotiation on

From John E. Reynolds

Increasing Swap Lines

STRICTLY CONFIDENTIAL - F.R.

Mr. Bodner telephoned from New York this morning to report on the status of the negotiations for increasing Federal Reserve swap lines.

Canada. Bodner had discussions yesterday in Ottawa with Bank of Canada officials, and found them generally receptive to the idea of an increase in the swap line to \$2 billion. They will give a more definite answer at Basle this weekend.

Japan. The Japanese are favorably disposed to an increase in the line to \$2 billion, providing that similar increases are negotiated with France and Germany.

Germany. An increase in the swap line to \$2 billion seems to be agreeable to them.

Other Europeans. Mr. Coombs expects to bring negotiations with them to something near a conclusion this weekend at Basle.

General. The aim has been to get agreements in principle, without final detailed agreement so that the matter will not have to be reported to the EEC Commission where leaks might occur. The whole package could then be finalized and announced at a time judged propitious from the point of view of market psychology.



Bodner and some Europeans note that it would be desirable to have the revaluation clause agreed, at least with those countries on whom we might be likely to draw, at the same time, so that the announced increase in swap lines will not be purely cosmetic.

Query: Do you wish Coombs, or Bodner, or me to inform the Treasury of any of the above? Or are you keeping them informed?

||
OK
John R.



Proposed Changes in Federal Reserve Swap Network

<u>Foreign Bank</u>	<u>Increase</u>	<u>Total</u>
Austrian National Bank	50	250
National Bank of Belgium	400	1,000
Bank of Canada	1,000	2,000
National Bank of Denmark	50	250
Bank of England	--	2,000
Bank of France	1,000	2,000
German Federal Bank	1,000	2,000
Bank of Italy	750	2,000
Bank of Japan	1,000	2,000
Bank of Mexico	50	180
Netherlands Bank	200	500
Bank of Norway	50	250
Bank of Sweden	50	300
Swiss National Bank	400	1,400
Bank for International Settlements		
Swiss francs/dollars	--	600
Other European currencies/dollars	<u>250</u>	<u>1,250</u>
TOTALS	6,250	17,980





FEDERAL RESERVE

press release

For immediate release

July 11, 1973

The Federal Reserve System said today 13 foreign central banks and the Bank for International Settlements were involved in the \$6.25 billion swap network increase announced yesterday.

The largest increases, of \$1 billion each, involved the Bank of Canada, Bank of France, German Federal Bank and the Bank of Japan.

A swap arrangement is a short-term facility under which the Federal Reserve and another central bank mutually agree to exchange dollars for the currency of the other country up to a maximum amount over a limited period of time.

The increases and the new totals of the swap lines are as follows (in millions of dollars):

<u>Foreign Bank</u>	<u>Increase</u>	<u>Total</u>
Austrian National Bank	50	250
National Bank of Belgium	400	1,000
Bank of Canada	1,000	2,000
National Bank of Denmark	50	250
Bank of England	--	2,000
Bank of France	1,000	2,000
German Federal Bank	1,000	2,000
Bank of Italy	750	2,000
Bank of Japan	1,000	2,000
Bank of Mexico	50	180
Netherlands Bank	200	500
Bank of Norway	50	250
Bank of Sweden	50	300
Swiss National Bank	400	1,400
Bank for International Settlements		
Swiss francs/dollars	--	600
Other European currencies/dollars	250	1,250
TOTALS	6,250	17,980

(Note: The foregoing announcement is also being released by the Federal Reserve Bank of New York)



STRICTLY CONFIDENTIAL (FR)



SWAP ARRANGEMENTS BETWEEN THE SYSTEM
AND FOREIGN CENTRAL BANKS
July 11, 1973

Listed below as of July 11, 1973, are the swap arrangements concluded on behalf of the Federal Reserve System with foreign banks.

<u>Foreign Bank</u>	<u>Amount of Agreement (millions of dollars)</u>	<u>Maturity of latest authorized renewal</u>
Austrian National Bank	250	December 3, 1973
National Bank of Belgium	1,000	December 21, 1973
Bank of Canada	2,000	December 28, 1973
National Bank of Denmark	250	December 3, 1973
Bank of England	2,000	December 3, 1973
Bank of France	2,000	December 28, 1973
German Federal Bank	2,000	December 14, 1973
Bank of Italy	2,000	December 31, 1973
Bank of Japan	2,000	December 3, 1973
Bank of Mexico	180	December 3, 1973
Netherlands Bank	500	December 28, 1973
Bank of Norway	250	December 3, 1973
Bank of Sweden	300	December 3, 1973
Swiss National Bank	1,400	December 3, 1973
B. I. S.	1,250(600) (1,250) <u>1/</u>	December 3, 1973 December 3, 1973
<hr/>		
Total	17,980	

1/ This reciprocal arrangement provides for swaps of dollars against authorized European currencies other than Swiss francs.

As of July 11, 1973, drawings on the above arrangements are outstanding in the amounts indicated below:

<u>Arrangements with</u>	<u>Initiated by System (millions of dollars equivalent)</u>	<u>Drawings Outstanding on Swaps</u>	
		<u>Initiated by foreign bank</u>	<u>Date since facility has been in con- tinuous use</u>
National Bank of Belgium	390	--	June 30, 1970
Swiss National Bank	565	--	May 19, 1971
B.I.S. (Swiss francs)	600	--	August 12, 1971
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Total	1,555		
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STRICTLY CONFIDENTIAL (FR)



SWAP ARRANGEMENTS BETWEEN THE SYSTEM
AND FOREIGN CENTRAL BANKS
September 12, 1973

Listed below as of September 12, 1973, are the swap arrangements concluded on behalf of the Federal Reserve System with foreign banks.

<u>Foreign Bank</u>	<u>Amount of Agreement (millions of dollars)</u>	<u>Maturity of latest authorized renewal</u>
Austrian National Bank	250	December 3, 1973
National Bank of Belgium	1,000	December 21, 1973
Bank of Canada	2,000	December 28, 1973
National Bank of Denmark	250	December 3, 1973
Bank of England	2,000	December 3, 1973
Bank of France	2,000	December 28, 1973
German Federal Bank	2,000	December 14, 1973
Bank of Italy	2,000	December 31, 1973
Bank of Japan	2,000	December 3, 1973
Bank of Mexico	180	December 3, 1973
Netherlands Bank	500	December 28, 1973
Bank of Norway	250	December 3, 1973
Bank of Sweden	300	December 3, 1973
Swiss National Bank	1,400	December 3, 1973
B.I.S.	1,850(600) (1,250) <u>1/</u>	December 3, 1973 December 3, 1973
<hr/>		
Total	17,980	
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1/ This reciprocal arrangement provides for swaps of dollars against authorized European currencies other than Swiss francs.

As of September 12, 1973, drawings on the above arrangements are outstanding in the amounts indicated below:
are outstanding

Drawings Outstanding on Swaps

<u>Arrangements with</u>	<u>Initiated by System (millions of dollars equivalent)</u>	<u>Initiated by foreign bank</u>	<u>Date since facility has been in con- tinuous use</u>
National Bank of Belgium	362	--	June 30, 1970
Swiss National Bank	565	--	May 19, 1971
B.I.S. (Swiss francs)	600	--	August 12, 1971
German Federal Bank	5	--	July 12, 1973
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	1,532		
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STRICTLY CONFIDENTIAL (FR)

SWAP ARRANGEMENTS BETWEEN THE SYSTEM
AND FOREIGN CENTRAL BANKS
January 16, 1974



Listed below as of January 16, 1974, are the swap arrangements concluded on behalf of the Federal Reserve System with foreign banks.

<u>Foreign Bank</u>	<u>Amount of Agreement (millions of dollars)</u>	<u>Maturity of latest authorized renewal</u>
Austrian National Bank	250	December 3, 1974
National Bank of Belgium	1,000	December 21, 1973
Bank of Canada	2,000	December 28, 1973
National Bank of Denmark	250	December 27, 1974
Bank of England	2,000	December 3, 1974
Bank of France	2,000	December 28, 1973
German Federal Bank	2,000	December 14, 1973
Bank of Italy	2,000	December 31, 1973
Bank of Japan	2,000	December 3, 1974
Bank of Mexico	180	December 3, 1974
Netherlands Bank	500	December 28, 1973
Bank of Norway	250	December 3, 1974
Bank of Sweden	300	December 3, 1974
Swiss National Bank	1,400	December 3, 1974
B.I.S.	1,850 (600) (1,250) ^{1/}	December 3, 1974 December 3, 1974
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Total	17,980	

^{1/} This reciprocal arrangement provides for swaps of dollars against authorized European currencies other than Swiss francs.

As of January 16, 1974, drawings on the above arrangements are outstanding in the amounts indicated below:

<u>Arrangements with</u>	<u>Initiated by System (millions of dollars equivalent)</u>	<u>Drawings Outstanding on Swaps</u>	
		<u>Initiated by foreign bank</u>	<u>Data since facility has been in con- tinuous use</u>
National Bank of Belgium	262	--	June 30, 1970
Swiss National Bank	532	--	May 19, 1971
B.I.S. (Swiss francs)	600	--	August 12, 1971
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Total	1,394		
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STRICTLY CONFIDENTIAL (FR)



SWAP ARRANGEMENTS BETWEEN THE SYSTEM
AND FOREIGN CENTRAL BANKS
February 13, 1974

Listed below as of February 13, 1974, are the swap arrangements concluded on behalf of the Federal Reserve System with foreign banks.

<u>Foreign Bank</u>	<u>Amount of Agreement (millions of dollars)</u>	<u>Maturity of latest authorized renewal</u>
Austrian National Bank	250	December 3, 1974
National Bank of Belgium	1,000	March 29, 1974
Bank of Canada	2,000	December 27, 1974
National Bank of Denmark	250	December 27, 1974
Bank of England	2,000	December 3, 1974
Bank of France	2,000	December 27, 1974
German Federal Bank	2,000	December 27, 1974
Bank of Italy	3,000	December 31, 1974
Bank of Japan	2,000	December 3, 1974
Bank of Mexico	180	December 3, 1974
Netherlands Bank	500	December 27, 1974
Bank of Norway	250	December 3, 1974
Bank of Sweden	300	December 3, 1974
Swiss National Bank	1,400	December 3, 1974
B.I.S.	1,850 (600) (1,250) ^{1/}	December 3, 1974 December 3, 1974
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Total	18,980	

^{1/} This reciprocal arrangement provides for swaps of dollars against authorized European currencies other than Swiss francs.

As of February 13, 1974, drawings on the above arrangements are outstanding in the amounts indicated below:

<u>Arrangements with</u>	<u>Initiated by System (millions of dollars equivalent)</u>	<u>Drawings Outstanding on Swaps</u>	
		<u>Initiated by foreign bank</u>	<u>Date since facility has been in con- tinuous use</u>
National Bank of Belgium	262	--	June 30, 1970
Swiss National Bank	371	--	May 19, 1971
B.I.S. (Swiss francs)	600	--	August 12, 1971
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Total	1,233		
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STRICTLY CONFIDENTIAL (FR)

SWAP ARRANGEMENTS BETWEEN THE SYSTEM
AND FOREIGN CENTRAL BANKS

March 13, 1974



Listed below as of March 13, 1974, are the swap arrangements concluded on behalf of the Federal Reserve System with foreign banks.

<u>Foreign Bank</u>	<u>Amount of Agreement (millions of dollars)</u>	<u>Maturity of latest authorized renewal</u>
Austrian National Bank	250	December 3, 1974
National Bank of Belgium	1,000	March 29, 1974
Bank of Canada	2,000	December 27, 1974
National Bank of Denmark	250	December 27, 1974
Bank of England	2,000	December 3, 1974
Bank of France	2,000	December 27, 1974
German Federal Bank	2,000	December 27, 1974
Bank of Italy	3,000	December 31, 1974
Bank of Japan	2,000	December 3, 1974
Bank of Mexico	180	December 3, 1974
Netherlands Bank	500	December 27, 1974
Bank of Norway	250	December 3, 1974
Bank of Sweden	300	December 3, 1974
Swiss National Bank	1,400	December 3, 1974
B.I.S.	1,850 (600) (1,250) ^{1/}	December 3, 1974 December 3, 1974
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Total	18,980	

^{1/} This reciprocal arrangement provides for swaps of dollars against authorized European currencies other than Swiss francs.

As of March 13, 1974, drawings on the above arrangements are outstanding in the amounts indicated below:

Drawings Outstanding on Swaps

<u>Arrangements with</u>	<u>Initiated by System (millions of dollars equivalent)</u>	<u>Initiated by foreign bank</u>	<u>Date since facility has been in con- tinuous use</u>
National Bank of Belgium	262	--	June 30, 1970
Swiss National Bank	371	--	May 19, 1971
B.I.S. (Swiss francs)	600	--	August 12, 1971
German Federal Bank	120	--	February 28, 1974
Total	1,353		



STRICTLY CONFIDENTIAL (FR)

SWAP ARRANGEMENTS BETWEEN THE SYSTEM
AND FOREIGN CENTRAL BANKS
May 15, 1974

Listed below as of May 15, 1974, are the swap arrangements concluded on behalf of the Federal Reserve System with foreign banks.

<u>Foreign Bank</u>	<u>Amount of Agreement (millions of dollars)</u>	<u>Maturity of latest authorized renewal</u>
Austrian National Bank	250	December 3, 1974
National Bank of Belgium	1,000	March 29, 1974
Bank of Canada	2,000	December 27, 1974
National Bank of Denmark	250	December 27, 1974
Bank of England	3,000	December 3, 1974
Bank of France	2,000	December 27, 1974
German Federal Bank	2,000	December 27, 1974
Bank of Italy	3,000	December 31, 1974
Bank of Japan	2,000	December 3, 1974
Bank of Mexico	180	December 3, 1974
Netherlands Bank	500	December 27, 1974
Bank of Norway	250	December 3, 1974
Bank of Sweden	300	December 3, 1974
Swiss National Bank	1,400	December 3, 1974
B.I.S.	1,850 (600) (1,250) ^{1/}	December 3, 1974 December 3, 1974
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Total	19,980	

^{1/} This reciprocal arrangement provides for swaps of dollars against authorized European currencies other than Swiss francs.



As of May 15, 1974, drawings on the above arrangements are outstanding in the amounts indicated below:

<u>Arrangements with</u>	<u>Initiated by System (millions of dollars equivalent)</u>	<u>Drawings Outstanding on Swaps</u>	
		<u>Initiated by foreign bank</u>	<u>Date since facility has been in con- tinuous use</u>
National Bank of Belgium	262	--	June 30, 1970
Swiss National Bank	371	--	May 19, 1971
B.I.S. (Swiss francs)	600	--	August 12, 1971
German Federal Bank	365	--	February 28, 1974
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Total	1,597		
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FEDERAL RESERVE

press release

For Immediate Release

August 29, 1975

The Federal Reserve announced today that its reciprocal currency "swap" arrangement with the Bank of Mexico has been doubled, bringing the total of that arrangement to \$360 million.

The increase enlarges the System's swap network with 14 central banks and the Bank for International Settlements to \$20.16 billion.

A swap arrangement is a renewable, short-term facility under which a central bank agrees to exchange on request its own currency for the currency of the other party up to a specified amount over a limited period of time.

The Federal Reserve swap network was initiated in 1962. In all reciprocal currency arrangements the Federal Reserve Bank of New York acts on behalf of the Federal Reserve System under the direction of the Federal Open Market Committee.

The Federal Reserve's reciprocal currency arrangements are now as follows (in millions of dollars):

Austrian National Bank	\$ 250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	3,000
Bank of Japan	2,000
Bank of Mexico	360
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	1,400
Bank for International Settlements	
Swiss francs/dollars	600
Other European currencies/dollars	<u>1,250</u>
Total	\$20,160 million



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 13, 1976

To Chairman Burns

Subject: _____

From Charles J. Siegman CJS

Attached as requested is a copy of a July 1968 letter by Henry Fowler to Chairman Martin on the swap arrangements, that deals with the question of take-out and use of reserves by the United States. (Although the enclosed letter is labelled "Draft", as noted on top of the letter, this is the letter that was signed by Secretary Fowler on July 23, 1968).

I also am enclosing a copy of a July 1974 letter by you to Secretary Simon regarding the possibility of financial assistance to Italy ~~in~~ which ^{includes} a specific reference (in the next to final paragraph on page 2) to the need for firm take-out provisions by Italy.

Attachments.

- 1) ~~Draft~~
- 2) ~~Letter BIS~~
- 3) ~~Fowler~~





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

F.R. Swaps
B-11

July 15, 1968.

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Holland

Attached is a copy of a revised draft letter from the Secretary of the Treasury to Chairman Martin concerning Treasury backstop facilities for Federal Reserve swap arrangements.

This letter is a revision of the earlier draft letter dated June 7, 1968, which was sent to members of the Committee under date of June 25, 1968, and represents the product of a meeting of Treasury and Federal Open Market Committee officials on July 15, 1968. The matter is being placed on the agenda for consideration at the Committee meeting on July 16, 1968.

Robert C. Holland, Secretary,
Federal Open Market Committee.

Attachment



DRAFT: July 15, 1958

STRICTLY CONFIDENTIAL

(Draft of proposed letter from Secretary Fowler to Chairman Martin)

Dear Mr. Chairman:

*Signed + dated by
Secy Fowler 7/15/58
as per
meeting
of disc
7/16/58
meeting
(page
14)*

On several occasions in recent months, representatives of the Federal Open Market Committee have discussed with the Treasury the problem that arises when drawings under reciprocal currency arrangements reach maturity without a reversal of the funds covered.

Federal Reserve drawings under its reciprocal credit facilities are made to provide foreign central banks who are unwilling to hold new dollar acquisitions on an uncovered basis with a temporary alternative to holding uncovered dollars on one hand or, on the other, purchasing gold from the United States or requiring the United States to purchase the surplus dollars through recourse to the International Monetary Fund. Drawings have generally been restricted to situations in which there was a reasonable hope for a reversal of the flows of funds so that the Federal Reserve would be able to acquire the necessary foreign exchange to liquidate the commitment in timely fashion. It has always been clearly established policy on both sides that Federal Reserve use of such credit arrangements is appropriate for only limited periods of time; current policy, as generally understood, calls for repayment within one year, if not earlier.



There have been occasions, however, when such reversals did not materialize. On these occasions, arrangements have regularly been made by the System and the Treasury under which the United States used its basic reserve resources of gold, drawings on the International Monetary Fund, and the issuance of Treasury foreign currency-denominated securities to meet the problem which arises when the cover granted by the swap drawing is withdrawn.

Naturally the Federal Reserve wishes to maintain the essentially short-term character of its swap drawings and must always be in a position to honor at maturity any commitments it has undertaken under its reciprocal currency arrangements in cases where flows of funds to its swap partners do not reverse themselves within the appropriate period. Accordingly, the Treasury will stand ready, as in the past, to use the ^{basic reserve} resources of the United States to the extent required and in the combination most suited to the interests of the United States that can be negotiated to obtain and provide to the Federal Reserve the foreign currencies needed.

In light of this understanding, and in view of the fact that swap drawings by the Federal Reserve, while initially conserving the reserves of the United States, may, if not reversible by market forces, necessitate a use of such reserves in connection with the repayment of such drawings, it is



appropriate that there should continue to be consultation between the Treasury and the Federal Reserve on the use of swaps. This purpose can no doubt be accomplished through a continuation, and if necessary intensification, of the consultative procedures already developed by representatives of our two agencies concerning use of the swaps.





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

July 16, 1974

CONFIDENTIAL (FR)

The Honorable William E. Simon
Secretary of the Treasury
Department of the Treasury
Washington, D. C.

Dear Bill:

In view of the possibility that you may be engaging in talks about the provision of financial assistance to Italy, I am writing on behalf of the Federal Open Market Committee to clarify the status of the \$3 billion reciprocal currency arrangement (swap line) between the Federal Reserve System and the Bank of Italy.

The swap facility can be drawn on subject to the conditions and limitations arising from its nature and purpose. It has always been understood by both central bank parties to the swap arrangement that swap drawings are available only to meet short-term needs. Drawings are normally made for a period of three months, and while they may sometimes be renewed, it is in no case envisaged that they will remain outstanding for longer than one year. Therefore the swap line cannot be used to make any contribution to medium-term or long-term financing needs.

In present circumstances, recognizing that

- (a) the Italian authorities now appear to be taking substantial actions toward bringing about needed adjustments in the domestic Italian economy and in the Italian balance of payments, and that



The Honorable William E. Simon
July 16, 1974
Page 2

- (b) some time may be needed to arrange an appropriate package of external financial assistance for Italy,

the Federal Reserve System would be prepared to allow the Bank of Italy to make some use of its swap line for interim, short-term financing purposes.

We have had no specific discussions with the Bank of Italy about this. But, for your information, the Federal Open Market Committee which decides these matters has been thinking along the following lines. It would be appropriate for the Bank of Italy -- in anticipation of obtaining longer-term financing -- to draw, say, \$250 million initially, and to draw up to an additional \$250 million subject to conditions to be specified, such as that Italy obtain commensurate amounts on comparable terms from other sources, including other central banks and particularly the U.S. Exchange Stabilization Fund. It would be expected that these drawings would be repaid within three months, subject to periodic extensions, if necessary, up to one year.

For any drawings by the Bank of Italy on the System beyond \$500 million, the Committee would expect, in addition to commensurate Italian drawings on other sources, that firm take-out provisions would be negotiated (e. g., by the pledge of proceeds from prospective IMF drawings or of gold collateral), so that the repayment of such swap drawings within one year would be assured.

I am sure you will agree that it would be helpful if you were to note, should the subject of the System's swap arrangements arise in your talks, that decisions concerning these arrangements are in the province of the Federal Open Market Committee.

Sincerely yours,

Arthur F. Burns



(b) some time may be needed to arrange an appropriate package of external financial assistance for Italy.

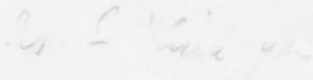
The Federal Reserve System would be prepared to allow the Bank of Italy to make some use of the swap line for interim, short-term financing purposes.

We have had no specific discussions with the Bank of Italy about this. As for your information, the Federal Open Market Committee which decides these matters has been thinking along the following lines. It would be appropriate for the Bank of Italy in anticipation of obtaining longer-term financing to draw, say, \$250 million initially, and to draw up to an additional \$250 million subject to conditions to be specified, such as that Italy obtain commensurate amounts on comparable terms from other sources, including other central banks and particularly the U.S. Exchange Stabilization Fund. It would be expected that the drawings would be repaid within three months, subject to periodic extensions, if necessary, up to one year.

For any drawings by the Bank of Italy on the System's \$250 million, the Committee would expect, in addition to commensurate Italian drawings on other sources, that there be one-to-one provisions would be negotiated (e.g., by the pledge of proceeds from prospective Italian drawings or gold collateral), so that the repayment of such swap drawings within one year would be assured.

I am sure you will agree that it would be helpful if you were to note, should the subject of the System's swap arrangements arise in your talks, that decisions concerning these arrangements are in the province of the Federal Open Market Committee.

Sincerely yours,



Arthur F. Burns

As I think you know, Boris Linn has
a long falling - not of any kind of
business, but any kind of interest
group. In my judgment, it would be

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 14, 1976

To Chairman Burns and Governor Wallich

Subject: Maturity Limitation on Foreign

From Gary M. Welsh *GMW*

Currency Swap Arrangements.

You have requested the Legal Division's opinion on whether there are any legal limitations on the maturity of swap arrangements entered into by the Reserve Banks pursuant to the direction of the FOMC.

A search of Legal Records has revealed a memorandum dated May 28, 1962 from Howard Hackley, General Counsel to the FOMC that deals with this specific question (a copy of this memorandum is attached). In his memorandum (Item 3) Mr. Hackley concluded that--

"There is no statutory restriction upon the length of maturity of accounts that may be maintained by a Reserve Bank with a foreign bank; and if it can be established that such a medium term swap arrangement is necessary or desirable in order to effectuate open market transactions in foreign currencies, I would feel that it would be subject to no greater legal objection than a short term 90-day swap such as that already made with the Bank of France." However, the length of the commitment might make it more difficult as a matter of degree to establish that the arrangement is related to the effective conduct of such open market transaction. It is of course, possible that arrangements of this kind might be subject to question on policy grounds."

The Legal Division has reviewed relevant statutory provisions supporting swap arrangements (see Mr. Hackley's memorandum to the FOMC of November 22, 1961) and sees no reason to disagree with Mr. Hackley's conclusions as expressed above. The Division would note, however, that there are specific statutory maturity limitations on bills of exchange and acceptances that can be purchased by Reserve Banks through accounts maintained with foreign banks (§ 14(e) of the Federal Reserve Act).^{1/} In addition, of course, Section 12A of the Federal Reserve Act prescribes that the "time, character and volume of all purchases and sales of paper described in Section 14 of this Act as eligible for open market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country." [Emphasis added]

^{1/} These limitations do not appear to apply to cable transfers (§ 14(a) of the Federal Reserve Act) which are the medium through which the Reserve Banks may acquire or dispose of holdings of foreign currency in the form of balances with foreign banks.



May 28, 1962.

Return this copy to
Post Division as soon
as original is mailed
along with copy this day
of mailing.

CONFIDENTIAL (FR)

Federal Open Market Committee

Subject: Legal aspects of proposed

Howard H. Hackley, General Counsel

arrangements with foreign banks

Mr. Coombs' memoranda of May 16, May 21, May 22, and May 23, 1962, discuss possible arrangements with the Bank of England, the Nederlandsche Bank, the Swiss National Bank, and the National Bank of Belgium, respectively. Certain possible legal questions are alluded to in these memoranda.

(1) With respect to a possible swap arrangement with the Bank of England, discussed in Mr. Coombs' memorandum of May 15, I see no legal question. I assume that the arrangement would be generally similar to the 90-day swap with the Bank of France.

(2) Mr. Coombs' memorandum of May 21 refers to the possibility that Federal Reserve holdings of guilders with the Nederlandsche Bank might be placed in a guilder time deposit with the BIS. If this should be desired, it would of course be necessary for the Board of Governors, pursuant to section 214.5(a) of Regulation N, to designate the BIS as a foreign bank with which an account payable in foreign currency may be maintained. Question might be raised as to whether any negotiation or agreement between the New York Reserve Bank and the BIS with respect to such account would fall within section 214.5(b) of Regulation N so as to be subject to authorizations, directions, and regulations of the Federal Open Market Committee (instead of the Board of Governors), since it might appear that the time account with the BIS would not be utilized for open market operations in foreign currency. In my opinion, however, where an account is opened with a foreign bank, in this case the Nederlandsche Bank, for the purpose of facilitating foreign exchange operations, and where a part of that account not needed for current operations is invested in a time account with another foreign bank, such investment may be regarded as related to the effective conduct of such open market transactions. Accordingly, I would see no legal objection to the proposed time deposit with the BIS.

(3) Mr. Coombs' memorandum of May 22 raises a question whether a "medium term credit arrangement" with the Swiss National Bank would be legally warranted. I assume that such an arrangement would contemplate reciprocal deposits between the New York Reserve Bank and the Swiss National Bank under a commitment running for five years or longer. There is no statutory restriction upon the length or maturity



of accounts that may be maintained by a Reserve Bank with a foreign bank; and if it can be established that such a medium-term swap arrangement is necessary or desirable in order to effectuate open market transactions in foreign currencies, I would feel that it would be subject to no greater legal objection than a short-term, 90-day swap such as that already made with the Bank of France. However, the length of the commitment might make it more difficult, as a matter of degree, to establish that the arrangement is related to the effective conduct of such open market transactions. It is of course possible that an arrangement of this kind might be subject to question on policy grounds.

(4) In Mr. Coombs' memorandum of May 23, regarding discussions with the National Bank of Belgium, mention is made of a suggestion that funds with that bank might be invested in notes of a Belgian company engaged in providing credits to commerce and industry. It may be questionable whether such investment would be clearly authorized; but I understand that this question is now academic. As to the suggestion that Federal Reserve holdings of Belgian francs be placed in a time deposit with the BIS, the considerations mentioned above with respect to the Nederlandsche Bank arrangement would be equally applicable.

