



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

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

TO: Federal Open Market Committee

DATE: March 15, 1989

FROM: Normand Bernard *NB.*

For the Committee's information, there is attached a wire from Mr. Sam Cross regarding the formal and informal limits on System holdings of foreign currency balances. Changes in the informal limits, as Mr. Cross has proposed, do not need to be voted upon by the Committee and they are not a matter of public record.

Attachment

To: Mr. Normand R. V. Bernard

March 15, 1989

From: Sam Y. Cross

Under the "Authorization for Foreign Currency Operations" the Federal Reserve Bank of New York is authorized to maintain foreign currency balances not exceeding \$12 billion equivalent. Within that formal overall limit (which is reported publicly) there are three informal sub-limits (not reported) which we observe covering System holdings of: German marks (\$8 billion equivalent); Japanese yen (\$3 billion equivalent); and other currencies (\$1 billion equivalent).

Present System balances of all foreign currencies are just over \$9 billion--well within the \$12 billion limit. However, market pressures recently have focussed on the dollar-mark relationship, and most of our operations have been in the form of sale of dollars against marks. The result is that our mark holdings are within \$100 million of the \$8 billion informal sub-limit on mark holdings.

At the Committee's meeting March 28, it will be possible to review the level and structure of the formal limits and informal sub-limits to consider whether any changes are appropriate. Pending that meeting, I have recommended to Chairman Greenspan a relaxation of the informal sub-limit for mark balances--within, of course, the overall limit of \$12 billion--and he concurs.