

Federal placed at the disposal of the Swiss National Bank 50 million American dollars for 3 months each.

Both sides have to be reversed in kind after 3 months. So there is no exchange risk involved at all. Whatever happens to exchange rates the Swiss get back their 216 million Swiss francs and the Americans get back the \$50 million. So there is no particular hedging operation necessary in this form of a transaction.

The Swiss National Bank already held a considerable amount of dollars. The American Federal Reserve Bank used the 216 million Swiss francs to buy normal dollars from the Swiss National Bank, so that 216 million Swiss francs immediately flowed back to Switzerland. The net effect you just have replacement of normal dollars which will be replaced? After 3 months in kind in dollars which, in effect, carry an exchange rate guarantee.

Representative REUSS. The United States and particularly the Federal Reserve has over the last year entered into various swapping agreements with various foreign countries, including, I believe, an earlier agreement with Switzerland.

Mr. NIEHANS. Yes, but of a different type.

Representative REUSS. The agreement made 3 weeks ago which you have been describing to us is, I gather, a markedly different arrangement from previous swapping arrangements in that this one carries what amounts to an exchange guarantee.

Mr. NIEHANS. I would say in principle most of the swap agreements carry some kind of exchange rate guarantee. It is inherent in most, if not all, swap agreements. The recent one of 3 weeks ago was a further development of the techniques developed earlier, between the Bank of England and the Swiss National Bank and between other central banks, too.

Representative REUSS. I didn't really understand that these earlier agreements did have an implicit exchange guarantee. I would have thought that this country simply swapped dollars for French francs. If something happened to the dollar while the bank of France was holding it, that was tough luck for the Bank of France.

Mr. NIEHANS. It is inherent in the type of transaction because if A loans B an apple and B loans A an orange, and the transactions is reversed in 3 months, there is no price risk involved. That is the basic idea of the swap agreement.

Representative REUSS. Where did you get your information about this arrangement?

Mr. NIEHANS. In part from the papers and in part from the Swiss National Bank.

Representative REUSS. I think it is very ironic, Mr. Chairman, that we have to get our friend over from Switzerland to tell us what the American Federal Reserve Bank is doing. We have the greatest difficulty getting this information here. I should think that the people at the press table this morning would be interested in revealing to the American public the nature of the arrangement made.

It seems to me very interesting and sounds like a pretty good agreement, and I am delighted to hear about it even through the somewhat indirect channel (i.e., from abroad) that we have here this morning.

I would like to ask Mr. Day what he thinks of the point of view expressed by the Bank for International Settlements in their annual