what is the fed allowed to hold qua currencies?

Sources

Answer

The Federal Reserve is authorized to hold various foreign currencies as part of its monetary policy operations. Specifically:

Foreign Currency Holdings

The Federal Open Market Committee (FOMC) authorizes the Federal Reserve to:

Purchase and sell foreign currencies in the open market, including transactions with:

The U.S. Treasury

Foreign monetary authorities

The Bank for International Settlements

Other entities in the open market1

Conduct foreign exchange swap transactions1

Maintain reciprocal currency arrangements under the North American Framework Agreement1

Hold standing dollar liquidity swap arrangements and temporary dollar liquidity swap arrangements1

Maintain standing foreign currency liquidity swap arrangements1

Additional Authorizations

The Fed is also permitted to:

Hold foreign currencies in accounts at foreign central banks1

Invest in foreign currency-denominated assets, including government or agency securities1

Manage balances in various time and deposit accounts at approved foreign institutions1

Limitations and Oversight

The FOMC places certain restrictions on these activities:

Many transactions require prior approval from the FOMC or its Foreign Currency Subcommittee1

There are limits on the overall volume of standalone spot and forward transactions in foreign currencies1

The Fed must adhere to guidelines aimed at avoiding exchange rate manipulation or unfair competitive advantages in the international monetary system1

These authorizations allow the Federal Reserve to conduct foreign currency operations as part of its broader monetary policy toolkit, enabling it to respond to various economic conditions and maintain stability in the financial system.

Does the Federal Reserve Act forbid the use of cryptocurrencies in any way?

Sources

Answer

The Federal Reserve Act does not explicitly forbid the use of cryptocurrencies, but recent policy statements and actions by the Federal Reserve have significantly restricted cryptocurrency-related activities for member banks. Key points include:

The Federal Reserve has issued a policy statement that "presumptively prohibits" member banks from holding most crypto assets as principal45.

Member banks are generally not permitted to issue or hold as principal crypto-assets that are issued, stored, or transferred on open, public, and/or decentralized networks4.

The Federal Reserve has stated that it "had not identified any authority permitting national banks to hold most crypto assets, including bitcoin and ether, as principal in any amount"5.

Certain crypto-related activities may be allowed under specific conditions:

Issuing dollar tokens is permitted if banks adhere to OCC conditions and receive supervisory approval5.

Providing safekeeping for crypto assets in a custodial capacity is not presumptively prohibited, but must be conducted safely and in compliance with relevant laws5.

The Federal Reserve itself is legally prohibited from owning Bitcoin or other cryptocurrencies, as confirmed by Chairman Jerome Powell7.

Recent legislative efforts, such as the "CBDC Anti-Surveillance State Act," aim to further restrict the Federal Reserve's involvement in central bank digital currencies (CBDCs)9.

While the Federal Reserve Act itself does not explicitly forbid cryptocurrencies, the Federal Reserve's interpretations and policies have created significant restrictions on crypto-related activities within the regulated banking environment.