



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

August 13, 1984

CONFIDENTIAL (FR)
CLASS III - FOMC

TO: Federal Open Market Committee

FROM: Normand Bernard *NB*

Attached is a report of examination of the System Open Market Account. The examination was conducted by the Board's Division of Federal Reserve Bank Operations as of the close of business on January 13, 1984, and the report was submitted by Mr. Farnsworth, Director of the Division, on August 6, 1984. An audit of the Account is made in connection with the annual financial examination of the Federal Reserve Bank of New York in accordance with long-standing procedures.

The attached report is on the agenda for consideration at the meeting of the Committee on August 21, 1984.

Attachment

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



DIVISION OF FEDERAL
RESERVE BANK OPERATIONS

August 6, 1984

RESTRICTED

Mr. Stephen H. Axilrod
Secretary
Federal Open Market Committee
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Axilrod:

The following report is submitted for the information of the Federal Open Market Committee in compliance with the Committee's standing request. An examination of the System Open Market Account, including domestic open market and foreign currency operations, was made as of the close of business, January 13, 1984, in conjunction with the annual Financial Examination of the Federal Reserve Bank of New York. Accounts relating to bankers' acceptance and repurchase agreement transactions were also tested.

SCOPE OF EXAMINATION

The financial examination was conducted in accordance with generally accepted auditing standards. The procedures used included verification of System Open Market Account holdings and the related asset and liability accounts; tests of departmental accounting records to determine the appropriateness of the balances reported in earnings and profit and loss accounts; reviews of selected transactions to determine the level of compliance with established procedures and the adequacy of internal control systems; reviews of the scope and frequency of audits made by the resident auditing staff; and other examination procedures as we considered necessary or appropriate.

RESTRICTED

Mr. Stephen H. Axilrod

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SUMMARY OF FINDINGS

Domestic Open Market Operations

In our opinion, the records of the Securities Department presented fairly the domestic security holdings as of January 13, 1984 (see attached tables), and the results of operations for the interval since the last examination as of February 4, 1983.

During the interval between examinations, it was determined that security holdings, earnings, discounts, premiums, and profits and losses resulting from open market operations were allocated among the Federal Reserve Banks in accordance with procedures approved by the Federal Open Market Committee and that transactions had been executed within the limits prescribed by the Committee.

Foreign Currency Operations

In our opinion, the records of the Foreign Department presented fairly the asset and liability accounts related to the foreign currency operations as of January 13, 1984 (see attached tables).

During the interval between examinations, distribution of interest earnings on foreign currency balances and profits and losses on foreign exchange operations among the Federal Reserve Banks was made according to procedures approved by the Federal Open Market Committee. Foreign currencies were periodically revalued in accordance with generally accepted accounting principles.

The review of transactions on the date of our examination indicated that the pertinent authorizations issued by the Committee were being followed. In our opinion, the accounting records, the internal controls in effect, and the audit attention were adequate.

Sincerely yours,



Clyde H. Farnsworth, Jr.
Director

Attachments-
Table I
Table II

SYSTEM OPEN MARKET DOMESTIC SECURITY AND FOREIGN CURRENCY HOLDINGS

As of January 13, 1984

A. Domestic Operations

Bankers' Acceptances: 1/

Bought Outright	\$	-0-	
Less Unearned Discount		-0-	
Book Value			\$ -0-
Held Under Repurchase Agreements	\$	-0-	
Less Unearned Discount		-0-	
Book Value			-0-

U. S. Treasury and
Government Agency Securities:

Bought Outright	\$160,252,116,000.00	
Less Discount	(2,245,608,810.05)	
Plus Premium	423,379,832.25	
Plus Interest Accrued	2,627,289,729.70	
Book Value		161,057,176,751.90
Held Under Repurchase Agreements <u>1/</u>	\$ -0-	
Less Discount	-0-	
Plus Premium	-0-	
Plus Interest Accrued	-0-	
Book Value		-0-
Total Book Value		\$161,057,176,751.90

B. Foreign Currency Operations

	Units of Foreign Currency	
Belgian Francs	14,649,308.00	\$ 260,807.39
Canadian Dollars	181,508.17	145,736.05
British Pounds	63,661.85	91,303.83
French Francs	21,305,777.90	2,531,049.64
German Marks	8,089,482,645.06	2,935,425,478.45
Japanese Yen	134,457,931,057.00	575,935,627.28
Netherland Guilders	36,410,913.54	11,765,172.88
Swiss Francs	524,311,292.27	239,592,641.36
Total		\$ 3,765,747,816.88
TOTAL HOLDINGS		<u>\$164,822,924,568.78</u>

1/ Bankers' acceptances and securities held under repurchase agreements are held for the account of the Federal Reserve Bank of New York at the direction of the Federal Open Market Committee and are included here to provide an accounting of all holdings purchased under the authority granted to the New York Reserve Bank by the Committee.

INCOME RESULTING FROM SYSTEM OPEN MARKET
DOMESTIC SECURITY AND FOREIGN CURRENCY OPERATIONS

January 1 through January 13, 1984

A. Domestic Operations

Bankers' Acceptances:

Discount Earned- Outright Purchases	\$ -0-
Discount Earned- Repurchase Agreements	752,290.37

U. S. Treasury and
Government Agency Securities:

Earnings- Outright Purchases	569,782,693.83
Earnings- Repurchase Agreements	4,818,620.63

Earnings on SOMA Securities Loaned	237,883.40
Net Loss On Securities Sold	(1,082,181.48)

Total	\$574,509,306.75
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B. Foreign Currency Operations

Interest Earned on Foreign Currency Investments ^{1/}	7,978,779.44
Profit or Loss on Foreign Exchange Transactions ^{2/}	-0-

Total	\$ 7,978,779.44
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TOTAL INCOME	<u>\$582,488,086.19</u>
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^{1/} Not yet distributed participations in 1984.

^{2/} Participations only distributed at month end based on revaluations of foreign currency holdings that day.