



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

February 3, 1986

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 May 31, 1985, and the report was submitted by Mr. Farnsworth, Director of the Division, on January 16, 1986. 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 February 11-12, 1986.

Attachment



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

**DIVISION OF FEDERAL  
RESERVE BANK OPERATIONS**

**January 16, 1986**

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, May 31, 1985, in conjunction with the annual Financial Examination of the Federal Reserve Bank of New York. Accounts relating to 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 May 31, 1985 (see attached tables), and the results of operations for the interval since the previous examination as of January 13, 1984.

During the interval between examinations, 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 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 May 31, 1985 (see attached tables).

During the interval between examinations, interest earnings on foreign currency balances and profits and losses on foreign exchange operations were distributed among the Federal Reserve Banks in accordance with 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 audit attention were adequate.

Sincerely yours,

  
Clyde H. Farnsworth, Jr.  
Director

Attachments

Table I  
Table II

Table I

SYSTEM OPEN MARKET DOMESTIC SECURITY AND FOREIGN CURRENCY HOLDINGS

As of May 31, 1985

A. Domestic Operations

Bankers' Acceptances: <u>1/</u>		\$	-0-
U. S. Treasury and Government Agency Securities:			
Bought Outright	\$172,608,639,000.00		
Less Discount	(2,240,500,331.92)		
Plus Premium	418,983,666.30		
Plus Interest Accrued	2,012,302,748.82		
Book Value			<u>172,799,425,083.20</u>
Held Under Repurchase Agreements <u>2/</u> \$	-0-		
Less Discount	-0-		
Plus Premium	-0-		
Plus Interest Accrued	-0-		
Book Value			<u>-0-</u>
Total Book Value			<u>\$172,799,425,083.20</u>

B. Foreign Currency Operations

	<u>Units of Foreign Currency</u>	<u>U. S. Dollar Equivalent</u>
Belgian Francs	16,709,638.00	267,097.79
Canadian Dollars	201,901.65	145,984.57
British Pounds	7,736,820.34	9,725,183.17
French Francs	24,165,980.78	2,553,193.95
German Marks	9,977,477,012.98	3,211,015,969.51
Japanese Yen	153,899,801,407.00	610,640,800.01
Netherlands Guilders	39,232,592.30	11,183,749.23
Swiss Francs	553,731,787.43	212,092,763.69
Total		\$ 4,057,624,741.92 <u>3/</u>
TOTAL HOLDINGS		<u>\$176,857,049,825.12</u>

1/ The use of Bankers' acceptances to manage reserves was discontinued as of July 2, 1984; New York serves only as an agent in buying and selling acceptances for accounts of foreign central banks.

2/ 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.

3/ Revalued US Dollar Equivalent rates of May 29, 1985.

Table II

INCOME RESULTING FROM SYSTEM OPEN MARKET

DOMESTIC SECURITY AND FOREIGN CURRENCY OPERATIONS

January 1 through May 31, 1985

A. Domestic Operations

Bankers' Acceptances:

Discount Earned - Outright Purchases	\$	-0-
Discount Earned - Repurchase Agreements		-0-

U.S. Treasury and  
Government Agency Securities:

Earnings - Outright Purchases	7,019,891,374.43
Earnings - Repurchase Agreements - New York	38,791,498.06
Earnings on SOMA New York Securities Loaned	2,745,370.43
Net Profit on Securities Sold	<u>57,968,532.11</u>
Total	7,119,396,775.03

B. Foreign Currency Operations

Interest Earned on Foreign Currency Investments <u>1/</u>	88,668,141.68
Profit or Loss on Foreign Exchange Transactions <u>2/</u>	<u>40,792,084.31</u>

Total	\$ 129,460,225.99
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TOTAL INCOME	<u>\$7,248,857,001.02</u>
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1/ All interest distributed as of May 31, 1985.

2/ Participations only distributed at month end (\$28,110,641.86 distributed May 31) based on revaluations of foreign currency holdings on May 29, 1985.