



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

November 9, 1978

CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee

FROM: Murray Altmann *M.A.*

Enclosed is a copy of the report of examination of the System Open Market Account, made by the Board's Office for Federal Reserve Bank Activities as of the close of business September 8, 1978, and submitted by Mr. Wallace, Staff Director, on November 6, 1978. An audit of the Account is made in connection with examination of the Federal Reserve Bank of New York, in accordance with long-standing procedures.

It is contemplated that the enclosed report will be discussed at the November meeting of the Committee.

Enclosure

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551



OFFICE OF THE STAFF DIRECTOR
FOR FEDERAL RESERVE BANK ACTIVITIES

November 6, 1978

RESTRICTED

Mr. Murray Altmann, Secretary
Federal Open Market Committee
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Altmann:

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 September 8, 1978, in conjunction with the annual financial examination of the Federal Reserve Bank of New York. Accounts relating to transactions in bankers' acceptances and to repurchase agreements were also tested.

Scope of Examination

The financial examination was conducted in accordance with generally accepted auditing standards. The procedures used included: the 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 procedure and adequacy of internal control systems; reviews of the scope and frequency of audits made by the resident auditing staff including an observation of an Acceptance Division audit; and, other examination procedures as we considered necessary or appropriate. Based on our observations of the Audit Department's February 9, 1978, review of the Acceptance Division, we did not physically verify the bankers acceptances on hand as of September 8, 1978; rather a random sample was examined for negotiability, eligibility and correctness of timing.

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Summary of Findings

Domestic Open Market Operations

In our opinion the records of the Security Department fairly represented the domestic security holdings as of September 8, 1978, (see attached tables) and the results of operations for the interval since the last examination, October 28, 1977.

During the interval between examinations, it was determined that security holdings, earnings, discount, premium, 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.

Audit attention to operations was reviewed during the examination and, in our opinion, is adequate.

Foreign Currency Operations

In our opinion, the records of the Foreign Department present fairly the asset and liability accounts related to the foreign currency operations as of September 8, 1978. (see attached tables.)

During the interval between examinations; distribution of interest earnings on foreign currency balances and net losses on foreign exchange operations among the Federal Reserve Banks was made according to procedures approved by the Federal Open Market Committee.

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 are adequate.

Sincerely yours,



William H. Wallace
Staff Director

SYSTEM OPEN MARKET DOMESTIC SECURITY AND FOREIGN CURRENCY HOLDINGS

As of September 8, 1978

A. Domestic Operations

Bankers' Acceptances: 1/

Bought Outright	\$ -0-	
Less Unearned Discount	<u>-0-</u>	
Book Value		-0-
Held Under Repurchase Agreements	-0-	
Less Unearned Discount	<u>-0-</u>	
Book Value		-0-

U. S. Treasury and Government
Agency Securities:

Bought Outright	\$113,523,777,000.00	
Less Discount	1,277,423,364.32	
Plus Premium	140,785,486.96	
Plus Interest Accrued	<u>1,073,526,987.88</u>	
Book Value		\$116,015,512,839.16
Held Under Repurchase Agreements ^{1/}	-0-	
Less Discount	-0-	
Plus Premium	-0-	
Plus Interest Accrued	<u>-0-</u>	
Book Value		<u>-0-</u>
Total Book Value		\$116,015,512,839.16

B. Foreign Currency Operations

	<u>Units of Foreign Currency</u>	
Belgian Francs	8,183,188.00	\$ 215,294.61
Canadian Dollars	127,239.31	120,281.99
British Pounds	62,304.82	159,106.43
French Francs	11,614,904.49	2,333,096.61
German Marks	9,882,997.36	4,680,818.32
Japanese Yen	334,873,551.00	1,071,551.55
Netherland Guilders	23,334,201.17	9,476,514.23
Swiss Francs	<u>379,180.57</u>	<u>154,308.09</u>
		\$18,210,971.83
Total Holdings		\$116,033,723,810.99

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 & FOREIGN CURRENCY OPERATIONS

January 1 through September 8, 1978

A. Domestic Operations

Bankers' Acceptances

Discount Earned - Outright Purchases	-0-
Discount Earned - Repurchase Agreements	\$ 10,204,110.46

U. S. Treasury & Government Agency Securities

Earnings - Outright Purchases	5,433,977,150.98
Earnings - Repurchase Agreements	49,885,549.18
Earnings on SOMA Securities Loaned	1,988,825.97
Penalty Charges to Dealers - SOMA Security Loans	3,250.00
Service Charge - Loan Processing Fee	87.50
Net Profit on Securities Sold	<u>57,415,508.30</u>

Total	\$5,553,474,482.39
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B. Foreign Currency Operations

Interest Earned on Foreign Currency Investments	1,243,135.85
Loss on Foreign Exchange Transactions	(131,729,081.86)

Total	(130,485,946.01)
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Total Income	\$5,422,988,536.38
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