



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

January 15, 1974

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Arthur L. Broida

Enclosed are copies of the reports of examination of the System Open Market Account and of foreign currency operations, made by the Board's Division of Federal Reserve Bank Operations as at the close of business July 27, 1973, and submitted by Mr. McWhirter, Associate Director. 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 most recently reaffirmed by the Committee at its meeting on March 10, 1970.

Also enclosed are (1) a memorandum from Mr. Holmes, dated January 3, 1974, which discusses the criticisms of the System Open Market Account contained in the examination report and the steps that have been and are being taken to eliminate the unsatisfactory conditions noted in the report; and (2) a letter from Mr. McWhirter, dated January 14, 1974, which states in part: "Based on the information provided . . . it appears that management has completed or set in motion all the steps required to correct the conditions outlined in our Report of Examination."

It is contemplated that the enclosed reports will be discussed at the meeting of the Committee to be held on January 22, 1974.

A handwritten signature in cursive script that reads "Arthur L. Broida".

Arthur L. Broida  
Secretary  
Federal Open Market Committee

Enclosures



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

**DIVISION OF FEDERAL  
RESERVE BANK OPERATIONS**

**January 14, 1974**

Mr. Arthur L. Broida  
Secretary  
Federal Open Market Committee  
Board of Governors of the  
Federal Reserve System  
Washington, D. C. 20551

Dear Mr. Broida:

In the 1973 Report of Examination of the System Open Market Account, we included statements which presented fairly the financial position of the Account. The Balance Sheet carried two footnotes resulting from an accumulation of errors in records which were identified and reconciled prior to the conclusion of the examination. Some of the errors were corrected during the examination but others were not corrected because of problems or inadequacies in data processing programs.

From our analysis, we concluded that the established procedures were adequate, if followed, to detect such errors. However, we observed that the prescribed procedures were not always being followed. We noted that the problems were primarily attributable to an increased volume of work, a shortage of clerical personnel, and difficulties relating to computer services and obsolescent programs. We were also critical of supervision in the Department. Supervision had deteriorated as supervisors were pressed to perform more and more routine duties because of volume increases and the shortage of clerical personnel.

Management recognized the seriousness and sensitivity of the situation and began taking action to correct the unsatisfactory conditions prior to the end of the examination. At that time, there was no way to predict the timing for implementing improvements which were needed in computer services and data processing programs.

Mr. Broida

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Management responded to the examination findings on December 21 and stated that additional staff members had been employed, that delivery of data processing equipment was expected before the end of the year to replace outmoded equipment, and that the System Open Market Account books were in the final steps of conversion to a new computer program. The actions related to data processing are designed to eliminate much of the accounting work which has been done manually, to decrease the chance for error, and to permit prompt adjustments when errors are discovered.

On January 3, 1974, Mr. Holmes transmitted a memorandum to the Federal Open Market Committee providing additional information about the unsatisfactory conditions and the corrective action that management has taken. His memorandum indicates that new data processing equipment in the department is being tested, that new computer programs are now being used, that employees are being kept aware of the necessity to perform standard checking procedures, and that supervisory employees are being relieved of routine operations so that they can effectively discharge their supervisory responsibilities. Mr. Holmes also states that provisions to implement all of the changes have been incorporated into the Bank's plans and budgets.

On January 8, 1974, General Auditor Smith of the New York Reserve Bank advised me that he had read Mr. Holmes' memorandum to the Committee. He stated that he was satisfied with the corrective measures that have been taken or that were contemplated to upgrade the quality of recordkeeping connected with transactions of the System Open Market Account. He also stated that none of their recent audits had disclosed out-of-balance conditions.

Based on the information provided in management's response to the examination findings, on the information provided in Mr. Holmes' memorandum, and on Mr. Smith's letter, it appears that management has completed or set in motion all the steps required to correct the conditions outlined in our Report of Examination.

The General Auditor at the New York B  
to monitor the operations and the changes being

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Mr. Broida

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the conditions. The Board's examiners will again review the System Open Market Account operations in 1974 and will report the findings to the Committee at the conclusion of the examination.

Very truly yours,

*E. Maurice McWhirter*

E. Maurice McWhirter  
Associate Director

January 3, 1974

CONFIDENTIAL (FR)

TO: Federal Open Market Committee      SUBJECT: Examination of System  
FROM: Alan R. Holmes                              Open Market Account

The report, dated August 28, 1973, of examination of the System Open Market Account as at the close of business July 27, 1973, by examiners of the Board of Governors contained several criticisms on the record-keeping for the Account during the year. This memorandum discusses the criticisms and the steps that have been and are being taken to eliminate the unsatisfactory conditions noted in the report.

The criticisms are summarized in the report as follows:

"Our review of operations disclosed that departmental records, in several instances, did not agree with balances in the general ledger. Exhibit A appended to this report includes an item for \$211 thousand (Issues Ledger increases) and another item for \$71 thousand (Nonparticipated balances-net), both of which resulted from an accumulation of errors in records. This situation was primarily attributable to clerical errors and was also aggravated by difficulties in getting work to and from the Computer Services Department. It is evident that there has been a lapse in complying with established procedures designed to prevent such errors. Adjusting entries have been, or will be, functioned to correct the account records."

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The situation noted in the report resulted partly from clerical errors made under tremendous pressure by employees of the Securities Department who were responsible for processing the record volume of transactions executed by the Trading Desk. The volume of these transactions increased by an estimated 80 per cent over the 1972 volume, mainly repurchase agreements, securities loans, and transactions undertaken for foreign accounts. During the first half of 1973, the Securities Department sought to handle the increasing volume without any increase in staff, in an attempt to comply with System-wide budgetary restraints. The result was a sharp rise in overtime payments, increasing delivery problems with dealers and their clearing banks, and other work pressures that culminated in the clerical errors noted in the report. While there are established checking procedures that should have revealed these errors without delay, the supervisory personnel who regularly make sure these checks are made were temporarily diverted to other tasks because of the heavy workload.

Another source of difficulty arose in the area of computer operations. Machines that had been used for long periods in the Securities Department--and retained partly because of cost considerations--were subject to frequent breakdown, causing undue delays and errors that had to be detected and corrected by the overburdened staff. Meanwhile, there was a long delay in the completion of a new program to handle accounting for the System Open Market Account on machines

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that would cover transactions in Government agency securities and remedy some of the defects of the old program. Accounting for transactions in agency issues has had to be done manually ever since the Committee authorized such operations in September 1971, even though it had been planned for the work to be processed on the computer by the end of that year.

Even before the receipt of the examination report last summer, steps were being taken to correct these unsatisfactory conditions--of which the Account Management was already aware. An increase of three in the staff of the Securities Department, initiated while the examiners were at the Bank, was approved and additional employees were obtained. In addition, steps were taken to improve the automation of the Division. Top priority was given by the Computer Support Department and the Computer Operations Department to System Account needs, and biweekly meetings of representatives of those departments and of the Securities and Auditing Departments were instituted. In addition, as part of the Federal Reserve Bank of New York's "Statement of the Bank's Primary Missions and Related Objectives for 1974", the following mission and objective have been adopted:

Mission: To interpret, execute and implement  
domestic policy directives of the FOMC.

Objective: To ensure that the operational needs  
of the Open Market Operations and Treasury

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Issues function receive needed support from within the Bank--including the provision of the necessary staffing, computer services, and research facilities--and also to seek procedural improvements within the System as a whole in order to facilitate the operations of the Trading Desk and minimize operating problems.

Efforts to complete the reprogramming of the System Open Market Account to a new, comprehensive 360 program were intensified. Toward the end of the year the new and old programs were being run in parallel, and the old program is now being phased out. After further experience the new program should permit routine performance of daily accounting operations, including the accounting for Government agency issues, and overburdened employees will be able to concentrate on the preparation of accurate, fully checked accounting records. In the meantime, personnel responsible for performing standard checking procedures have been made to understand that there must be no delays in making these checks. These steps are expected to relieve supervisory employees from routine operations and permit them to exercise their supervisory functions in an effective manner.

Finally, arrangements have been made to replace the obsolete data processing equipment used in the Securities Department with new



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equipment of larger capacity. The first of the new machines has been produced and delivered, and is undergoing on-site tests. The new machines will be under the supervision of the Government Bond and Safekeeping Department, which has responsibility for the maintenance of records of book-entry and other holdings of securities and for the delivery and receipt of securities by or to the Federal Reserve Bank of New York. After the changeover has been completed early in 1974, the Securities Department will then be in a better position to concentrate on its primary responsibility for the accuracy of the System Account records and for furnishing other Reserve Banks with the data necessary to keep their participation in the Account up to date.

Provisions to implement all these changes have been incorporated into the Bank's plans and budgets. I therefore believe that we have completed or set in motion all the steps required to meet the criticisms contained in the examiners' report.

CONFIDENTIAL

REPORTS OF EXAMINATION  
OF THE  
SYSTEM OPEN MARKET ACCOUNT  
AND  
FOREIGN CURRENCY OPERATIONS  
AT THE CLOSE OF BUSINESS  
JULY 27, 1973

Board of Governors of the Federal Reserve System  
Washington, D. C.

REPORT OF EXAMINATION  
OF THE  
SYSTEM OPEN MARKET ACCOUNT  
AT THE CLOSE OF BUSINESS  
JULY 27, 1973

Board of Governors of the Federal Reserve System  
Washington, D. C.

SYSTEM OPEN MARKET ACCOUNT

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Attachment

Procedures With Respect to Allocations of the Account



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

August 28, 1973

CONFIDENTIAL (FR)

Mr. Arthur L. Broida  
Secretary  
Federal Open Market Committee  
Board of Governors of the  
Federal Reserve System  
Washington, D. C. 20551

Dear Mr. Broida:

An examination of the System Open Market Account was made at the close of business July 27, 1973, in conjunction with our annual examination of the Federal Reserve Bank of New York. This report is submitted for the information of the Federal Open Market Committee in compliance with the Committee's standing request.

SCOPE OF EXAMINATION

The examination, conducted in accordance with generally accepted auditing standards, included verification of the holdings in the Account, review of transactions for propriety as to authorization and processing, tests of the accounting records, evaluation of internal controls, review of the scope and frequency of audits

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SCOPE OF EXAMINATION (continued)

made by the resident auditing staff, and other examination procedures as we considered necessary or appropriate.

SUMMARY OF FINDINGS

In our opinion, the accompanying statements (Exhibits A, B, and C) present fairly the financial position of the Account at July 27, 1973, and the results of operations for the periods indicated therein.

During the interval between examinations, allocations of the Account among the twelve Federal Reserve Banks were made in accordance with procedures approved by the Federal Open Market Committee (refer to Attachment).

We determined that transactions in the Account since our previous examination were within the limits prescribed in the pertinent authorizations issued by the Federal Open Market Committee.

Our review of operations disclosed that departmental records, in several instances, did not agree with balances in the general ledger. Exhibit A appended to this report includes an item for \$211 thousand (Issues Ledger increases) and another item for \$71 thousand (Non-participated balances- net), both of which resulted from an accumulation of errors in records. This situation was primarily attributable to clerical errors and was also aggravated by difficulties in getting work to and from the Computer Services Department. It is

SUMMARY OF FINDINGS (continued)

evident that there has been a lapse in complying with established procedures designed to prevent such errors. Adjusting entries have been, or will be, functioned to correct the accounting records.

The volume of transactions processed in the first six months of 1973 has, on an annualized basis, increased by 80 per cent over 1972 volume while the size of the staff has remained stable. The increased workload has placed a burden on the clerical staff and particularly on the nonofficial supervisors. The examination staff observed a deterioration of employee morale which is probably due to the fact that overtime has become commonplace and because employees feel that they are working under undue pressures.

In our discussions with management, we were informed that the current unsatisfactory conditions would be partially alleviated by (1) additions to the staff which were requested during the examination, (2) the installation of larger capacity equipment now being planned in cooperation with the Computer Services Department, and (3) the implementation of new computer programs which have been in the developmental process for four years.

\* \* \* \* \*

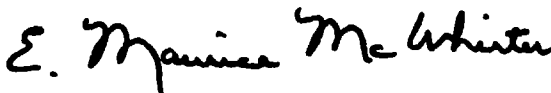
In the current year to date of examination, operations resulted in net earnings of \$2,553.6 million (Exhibit B) and a net loss of \$12.1 million (Exhibit C) on securities sold.

The following figures reflect a comparison of net earnings and the net profit from sale and exchange transactions for the year 1972 with corresponding totals for the preceding year. Net profit for 1972 and 1971 includes \$105 thousand and \$91.8 million, respectively, which resulted from advance refunding adjustments by the Treasury on securities exchanged.

	<u>1972</u>	<u>1971</u>	<u>Increase (Decrease)</u>
	(In thousands)		
Net earnings	<u>\$3,763,910</u>	<u>\$3,682,614</u>	<u>\$ 81,296</u>
Net profit on sale and exchange of securities	<u>\$ 2,986</u>	<u>\$ 101,992</u>	<u>\$(99,006)</u>

Detailed statements covering the inventory and appraisal of holdings in the Account and related participations of the respective Reserve Banks are presented in the appended schedules.

Respectfully submitted,



E. Maurice McWhirter  
Associate Director  
Division of Federal Reserve Bank Operations



BALANCE SHEET  
(In thousands)

At the close of business July 27, 1973

ASSETS

U.S. Government securities at par value (Note A)		
(Schedule I)-		
Treasury Bills	\$34,857,300	
Treasury Notes	37,138,248	
Treasury Bonds	3,663,655	
Agency Issues	<u>1,616,858</u>	\$77,276,061
Accrued interest-		
Treasury Notes	\$ 798,068	
Treasury Bonds	59,075	
Agency Issues	29,811	
Issues Ledger Increases	<u>211</u> <sup>1/</sup>	887,165
Premium (Schedule I)-		
Treasury Notes	\$ 42,261	
Treasury Bonds	675	
Agency Issues	<u>14,682</u>	<u>57,618</u>
Total assets		<u>\$78,220,844</u>

<sup>1/</sup> Consists of an underaccrual of \$205 thousand on one issue and three other adjustments totaling \$6 thousand. Correcting entries are to be functioned on or before the next coupon maturity date.

Exhibit A  
(continued)

BALANCE SHEET  
(In thousands)

LIABILITIES

Discount (Schedule I)-		
Treasury Bills	\$ 600,519	
Treasury Notes	59,133	
Treasury Bonds	142,786	
Agency Issues	<u>11,869</u>	\$ 814,307

PARTICIPATIONS

Net account (Schedule III)-		
Federal Reserve Bank-		
Boston	\$ 3,531,438	
New York	20,816,922	
Philadelphia	4,030,709	
Cleveland	5,594,552	
Richmond	5,526,124	
Atlanta	4,142,949	
Chicago	12,352,910	
St. Louis	2,858,776	
Minneapolis	1,604,482	
Kansas City	2,981,000	
Dallas	3,404,569	
San Francisco	<u>10,562,035</u>	
Participated balances		77,406,466
Non-participated balances- net		<u>71 <sup>1</sup>/<sub>1</sub></u>
Total liabilities and participations		<u>\$78,220,844</u>

Note A - Of the total holdings, \$63.4 billion was pledged as collateral securities for outstanding Federal Reserve notes (Schedule III).

1/ Consists of various accrual errors in the Interest Participation Ledger and amortization errors in the Discount Participation Ledger. Correcting entries were functioned on August 8, 1973.

Exhibit B

NET EARNINGS  
(In thousands)

	<u>January 1 to July 27, 1973</u>	<u>Year 1972</u>
<u>Earnings</u>		
U.S. Government securities-		
Interest	\$1,471,511	\$2,466,237
Discount	<u>1,099,464</u>	<u>1,328,879</u>
	\$2,570,975	\$3,795,116
Less- Premium amortization	<u>17,373</u>	<u>31,206</u>
Net earnings	<u>\$2,553,602</u>	<u>\$3,763,910</u>

Exhibit B  
(continued)

NET EARNINGS  
(In thousands)

	<u>January 1 to</u> <u>July 27, 1973</u>		<u>Year 1972</u>	
	<u>Amount</u>	<u>Per cent</u>	<u>Amount</u>	<u>Per cent</u>
<u>Participations</u>				
Federal Reserve Bank-				
Boston	\$ 116,785	4.6	\$ 174,721	4.6
New York	668,562	26.2	952,964	25.3
Philadelphia	134,298	5.3	199,460	5.3
Cleveland	189,374	7.4	289,933	7.7
Richmond	186,030	7.3	279,471	7.4
Atlanta	139,124	5.4	201,495	5.4
Chicago	408,682	16.0	609,927	16.2
St. Louis	94,602	3.7	141,190	3.8
Minneapolis	53,009	2.1	73,638	2.0
Kansas City	102,385	4.0	153,516	4.1
Dallas	113,358	4.4	171,213	4.5
San Francisco	<u>347,393</u>	<u>13.6</u>	<u>516,382</u>	<u>13.7</u>
Total	<u>\$2,553,602</u>	<u>100.</u>	<u>\$3,763,910</u>	<u>100.</u>

Exhibit C

NET PROFIT OR LOSS ON SALES AND EXCHANGES  
(In thousands)

	<u>January 1 to</u>		<u>Year 1972</u>	
	<u>July 27, 1973</u>		<u>Amount</u>	<u>Per cent</u>
	<u>Amount</u>	<u>Per cent</u>	<u>Amount</u>	<u>Per cent</u>
U.S. Government securities-				
Profits	\$ 201		\$7,103	
Losses	<u>12,346</u>		<u>4,117</u>	
Net profit (loss)	<u>\$ (12,145)</u>		<u>\$2,986</u>	<u>1/</u>
<u>Participations</u>				
Federal Reserve Bank-				
Boston	\$ 553	4.6	\$ 143	4.8
New York	3,209	26.4	770	25.8
Philadelphia	638	5.3	158	5.3
Cleveland	899	7.4	230	7.7
Richmond	879	7.3	214	7.2
Atlanta	660	5.4	153	5.1
Chicago	1,935	15.9	485	16.2
St. Louis	450	3.7	114	3.8
Minneapolis	256	2.1	57	1.9
Kansas City	484	4.0	124	4.2
Dallas	538	4.4	137	4.6
San Francisco	<u>1,644</u>	<u>13.5</u>	<u>401</u>	<u>13.4</u>
Total profit (loss)	<u>\$ (12,145)</u>	<u>100.</u>	<u>\$2,986</u>	<u>100.</u>

1/ Includes \$105 thousand advance refunding adjustments by Treasury on securities exchanged August 15.

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government securities</u>	<u>Maturity</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u> 1/	<u>Appreciation (Depreciation)</u>
Treasury Bills	7-31-73	\$ 721,620	\$ -	\$ 543	\$ 721,077	\$ 720,929	\$ (148)
	8- 2-73	1,600,080	-	1,837	1,598,243	1,597,811	(432)
	8- 9-73	1,682,065	-	3,694	1,678,371	1,676,932	(1,439)
	8-16-73	1,773,385	-	6,005	1,767,380	1,765,356	(2,024)
	8-23-73	1,633,195	-	7,697	1,625,498	1,623,163	(2,335)
	8-28-73	426,000	-	2,167	423,833	422,933	(900)
	8-30-73	1,484,245	-	9,237	1,475,008	1,472,891	(2,117)
	9- 6-73	1,541,755	-	12,093	1,529,662	1,527,567	(2,095)
	9-13-73	1,505,395	-	13,822	1,491,573	1,489,157	(2,416)
	9-20-73	1,555,580	-	16,956	1,538,624	1,536,306	(2,318)
	9-25-73	635,785	-	5,873	629,912	627,234	(2,678)
	9-27-73	1,435,930	-	17,560	1,418,370	1,415,800	(2,570)
	10- 4-73	1,606,810	-	23,508	1,583,302	1,581,864	(1,438)
	10-11-73	1,589,990	-	25,213	1,564,777	1,562,969	(1,808)
	10-18-73	1,605,135	-	27,728	1,577,407	1,575,270	(2,137)
	10-23-73	562,635	-	7,371	555,264	551,426	(3,838)
	10-25-73	<u>1,688,240</u>	<u>-</u>	<u>32,422</u>	<u>1,655,818</u>	<u>1,653,631</u>	<u>(2,187)</u>
Forward		\$23,047,845	\$ -	\$213,726	\$22,834,119	\$22,801,239	\$ (32,880)

Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government securities</u>	<u>Maturity</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u> 1/	<u>Appreciation (Depreciation)</u>
Forwarded		\$23,047,845	\$ -	\$213,726	\$22,834,119	\$22,801,239	\$ (32,880)
Treasury Bills (continued)	11- 1-73	536,400	-	9,548	526,852	524,650	(2,202)
	11- 8-73	532,400	-	10,108	522,292	519,788	(2,504)
	11-15-73	498,300	-	10,089	488,211	485,701	(2,510)
	11-20-73	543,700	-	9,163	534,537	529,317	(5,220)
	11-23-73	465,950	-	10,540	455,410	453,305	(2,105)
	11-29-73	506,180	-	12,483	493,697	491,750	(1,947)
	12- 6-73	412,005	-	10,991	401,014	399,602	(1,412)
	12-13-73	521,450	-	14,506	506,944	504,940	(2,004)
	12-18-73	748,180	-	15,960	732,220	723,490	(8,730)
	12-20-73	476,165	-	14,060	462,105	460,291	(1,814)
	12-27-73	447,410	-	13,979	433,431	431,723	(1,708)
	1- 3-74	574,980	-	20,721	554,259	553,923	(336)
	1-10-74	511,900	-	19,042	492,858	492,737	(121)
	1-15-74	771,990	-	22,015	749,975	741,966	(8,009)
	1-17-74	440,000	-	17,079	422,921	422,412	(509)
	1-24-74	519,700	-	21,664	498,036	497,725	(311)
	2-12-74	748,685	-	25,317	723,368	714,245	(9,123)
	3-12-74	766,750	-	32,124	734,626	726,493	(8,133)
	4- 9-74	670,180	-	31,450	638,730	630,720	(8,010)
	5- 7-74	508,400	-	27,701	480,699	475,111	(5,588)
	6- 4-74	608,730	-	38,253	570,477	564,837	(5,640)
		<u>\$34,857,300</u>	<u>\$ -</u>	<u>\$600,519</u>	<u>\$34,256,781</u>	<u>\$34,145,965</u>	<u>\$(110,816)</u>

Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u>	<u>1/</u>	<u>Appreciation (Depreciation)</u>
Treasury Notes	8-15-73	8 1/8%	\$ 232,000	\$ 35	\$ -	\$ 232,035	\$ 231,928		\$ (107)
	2-15-74	7 3/4	324,750	1,709	-	326,459	322,720		(3,739)
	5-15-74	7 1/4	998,750	1,689	-	1,000,439	985,641		(14,798)
	8-15-74	5 5/8	5,279,532	-	5,053	5,274,479	5,119,496		(154,983)
	9-30-74	6	23,200	-	144	23,056	22,504		(552)
	11-15-74	5 3/4	1,885,850	-	1,681	1,884,169	1,820,435		(63,734)
	12-31-74	5 7/8	33,750	-	459	33,291	32,558		(733)
	2-15-75	5 3/4	1,094,650	47	-	1,094,697	1,054,285		(40,412)
	2-15-75	5 7/8	95,200	312	-	95,512	91,838		(3,674)
	5-15-75	5 7/8	89,763	-	481	89,282	86,453		(2,829)
	5-15-75	6	3,741,597	299	-	3,741,896	3,610,641		(131,255)
	8-15-75	5 7/8	2,387,797	1,820	-	2,389,617	2,288,554		(101,063)
	11-15-75	7	463,815	2,063	-	465,878	455,119		(10,759)
	2-15-76	5 7/8	934,001	-	2,476	931,525	888,468		(43,057)
	2-15-76	6 1/4	2,506,500	-	2,277	2,504,223	2,410,940		(93,283)
	5-15-76	5 3/4	461,540	-	235	461,305	436,732		(24,573)
	5-15-76	6 1/2	344,850	531	-	345,381	332,780		(12,601)
	8-15-76	6 1/2	1,441,900	-	3,974	1,437,926	1,387,378		(50,548)
	8-15-76	7 1/2	720,300	6,711	-	727,011	711,746		(15,265)
	11-15-76	6 1/4	49,300	569	-	49,869	46,974		(2,895)
	2-15-77	8	2,450,700	11,638	-	2,462,338	2,460,656		(1,682)
	8-15-77	7 3/4	337,500	8,736	-	346,236	335,602		(10,634)
	2-15-78	6 1/4	2,573,250	6,102	-	2,579,352	2,429,309		(150,043)
	11-15-78	6	2,440,200	-	4,029	2,436,171	2,257,948		(178,223)
	8-15-79	6 1/4	512,000	-	15	511,985	481,600		(30,385)
	11-15-79	6 5/8	590,500	-	2,967	587,533	562,820		(24,713)
	5-15-80	6 7/8	5,125,053	-	35,342	5,089,711	4,892,824		(196,887)
			<u>\$37,138,248</u>	<u>\$42,261</u>	<u>\$59,133</u>	<u>\$37,121,376</u>	<u>\$35,757,949</u>		<u>\$(1,363,427)</u>



Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u> 1/	<u>Appreciation (Depreciation)</u>
Treasury Bonds	8-15-73	4 %	\$ 335,950	\$ -	\$ 144	\$ 335,806	\$ 335,215	\$ (591)
	11-15-73	4 1/8	437,950	-	898	437,052	432,065	(4,987)
	2-15-74	4 1/8	202,950	-	860	202,090	198,320	(3,770)
	5-15-74	4 1/4	327,555	-	1,564	325,991	316,807	(9,184)
	11-15-74	3 7/8	67,500	-	508	66,992	63,872	(3,120)
	2-15-80	4	144,800	-	10,396	134,404	118,917	(15,487)
	11-15-80	3 1/2	74,450	-	7,235	67,215	58,118	(9,097)
	8-15-81	7	121,425	268	-	121,693	120,590	(1,103)
	2-15-82	6 3/8	270,700	407	-	271,107	254,458	(16,649)
	6-15-83	3 1/4	78,450	-	15,422	63,028	55,994	(7,034)
	8-15-84	6 3/8	299,000	-	2,434	296,566	277,323	(19,243)
	5-15-85	3 1/4	46,800	-	5,955	40,845	33,374	(7,471)
	5-15-85	4 1/4	135,140	-	9,479	125,661	103,298	(22,363)
	11-15-86	6 1/8	301,160	-	1,479	299,681	274,432	(25,249)
	2-15-90	3 1/2	84,250	-	6,410	77,840	59,396	(18,444)
	8-15-92	4 1/4	503,600	-	62,650	440,950	363,221	(77,729)
	2-15-93	4	24,300	-	1,114	23,186	17,405	(5,781)
	2-15-93	6 3/4	23,200	-	334	22,866	21,387	(1,479)
	5-15-94	4 1/8	76,625	-	10,347	66,278	54,212	(12,066)
	2-15-95	3	2,100	-	419	1,681	1,479	(202)
	5-15-98	7	75,000	-	1,007	73,993	70,219	(3,774)
	11-15-98	3 1/2	<u>30,750</u>	<u>-</u>	<u>4,131</u>	<u>26,619</u>	<u>21,660</u>	<u>(4,959)</u>
			<u>\$3,663,655</u>	<u>\$675</u>	<u>\$142,786</u>	<u>\$3,521,544</u>	<u>\$3,251,762</u>	<u>\$(269,782)</u>

Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government agency securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u> 1/	<u>Appreciation (Depreciation)</u>
Export-Import Bank of the United States Debentures	2- 3-75	5.30 %	\$ 23,565	\$ -	\$ 110	\$ 23,455	\$22,593	\$ (862)
	12- 1-76	5.70	22,000	-	325	21,675	20,433	(1,242)
	8- 2-77	6 1/4	2,000	-	107	1,893	1,880	(13)
	2- 1-78	6.45	21,700	35	-	21,735	20,506	(1,229)
	5- 3-79	6.60	30,000	179	-	30,179	28,350	(1,829)
	2-20-82	5.10	<u>5,400</u>	<u>-</u>	<u>719</u>	<u>4,681</u>	<u>4,509</u>	<u>(172)</u>
			<u>\$104,665</u>	<u>\$214</u>	<u>\$1,261</u>	<u>\$103,618</u>	<u>\$98,271</u>	<u>\$(5,347)</u>

Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government agency securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value 1/</u>	<u>Appreciation (Depreciation)</u>
Federal Home Loan Bank Notes	8-27-73	7.20 %	\$ 17,325	\$ 28	\$ -	\$ 17,353	\$ 17,287	\$ (66)
	11-27-73	5.55	3,000	-	2	2,998	2,963	(35)
	1-25-74	8.40	9,820	90	-	9,910	9,783	(127)
	2-25-74	7.10	8,000	72	-	8,072	7,905	(167)
	5-27-74	6.35	14,340	-	1	14,339	14,035	(304)
	5-28-74	6.45	1,000	-	8	992	979	(13)
	8-26-74	5 3/8	9,500	-	228	9,272	9,156	(116)
	11-25-74	7.05	36,400	-	245	36,155	35,558	(597)
	2-25-75	5 7/8	1,500	-	3	1,497	1,444	(53)
	5-27-75	7.15	21,000	-	179	20,821	20,593	(228)
	8-25-75	7.95	19,600	514	-	20,114	19,465	(649)
	11-25-75	6 1/2	7,600	102	-	7,702	7,320	(382)
	11-25-75	7.05	1,000	-	1	999	977	(22)
	2-25-76	7 3/8	6,950	206	-	7,156	6,828	(328)
	5-25-76	7.20	3,500	-	63	3,437	3,417	(20)
	8-25-76	7.05	16,500	-	208	16,292	16,005	(287)
	2-25-77	6.15	8,200	-	115	8,085	7,749	(336)
	5-25-77	6.95	2,000	27	-	2,027	1,929	(98)
	2-25-80	7 3/4	35,415	1,772	-	37,187	35,326	(1,861)
	10-15-80	7.80	11,300	558	-	11,858	11,286	(572)
	11-27-81	6.60	7,700	1	-	7,701	7,123	(578)
	5-25-83	7.30	<u>3,600</u>	<u>-</u>	<u>13</u>	<u>3,587</u>	<u>3,492</u>	<u>(95)</u>
			<u>\$245,250</u>	<u>\$3,370</u>	<u>\$1,066</u>	<u>\$247,554</u>	<u>\$240,620</u>	<u>\$(6,934)</u>

Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government agency securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u> <u>1/</u>	<u>Appreciation (Depreciation)</u>
Federal Intermediate Credit Bank Debentures	8- 1-73	5.65 %	\$ 2,400	\$ 1	\$ -	\$ 2,401	\$ 2,399	\$ (2)
	9- 4-73	5.45	4,800	-	1	4,799	4,782	(17)
	1- 2-74	7.00	17,995	-	85	17,910	17,826	(84)
	2- 4-74	6.90	38,400	-	139	38,261	37,956	(305)
	3- 4-74	7.00	4,500	-	24	4,476	4,448	(28)
	7- 1-75	5.70	<u>10,000</u>	<u>12</u>	<u>-</u>	<u>10,012</u>	<u>9,550</u>	<u>(462)</u>
			<u>\$78,095</u>	<u>\$13</u>	<u>\$249</u>	<u>\$77,859</u>	<u>\$76,961</u>	<u>\$(898)</u>

Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government agency securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value 1/</u>	<u>Appreciation (Depreciation)</u>
Federal Land Bank Bonds	10-22-73	7.80 %	\$ 2,000	\$ 10	\$ -	\$ 2,010	\$ 1,993	\$ (17)
	10-23-73	5.80	2,000	1	-	2,001	1,984	(17)
	1-21-74	5.55	10,590	-	1	10,589	10,411	(178)
	4-22-74	5.85	15,150	-	128	15,022	14,809	(213)
	4-22-74	7.30	32,872	245	-	33,117	32,461	(656)
	7-22-74	5.85	27,275	47	-	27,322	26,491	(831)
	10-21-74	5.30	16,900	-	70	16,830	16,182	(648)
	10-20-75	7.20	7,100	180	-	7,280	6,958	(322)
	1-20-76	6 1/4	3,975	32	-	4,007	3,799	(208)
	10-20-76	7.15	10,000	-	174	9,826	9,725	(101)
	10-20-77	6.35	19,500	-	66	19,434	18,354	(1,080)
	7-20-78	6.40	2,000	5	-	2,005	1,875	(130)
	1-22-79	5.00	3,900	-	335	3,565	3,412	(153)
	4-23-79	6.85	10,000	155	-	10,155	9,562	(593)
	10-23-79	6.80	8,500	110	-	8,610	8,086	(524)
	4-20-81	6.70	1,000	8	-	1,008	935	(73)
	4-20-82	6.90	3,000	56	-	3,056	2,850	(206)
	10-20-82	7.30	<u>2,000</u>	<u>14</u>	<u>-</u>	<u>2,014</u>	<u>1,944</u>	<u>(70)</u>
			<u>\$177,762</u>	<u>\$863</u>	<u>\$774</u>	<u>\$177,851</u>	<u>\$171,831</u>	<u>\$(6,020)</u>

Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government agency securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u> 1/	<u>Appreciation (Depreciation)</u>
Federal National Mortgage Association Debentures	9-10-73	6 1/8%	\$ 20,125	\$ 18	\$ -	\$ 20,143	\$ 20,056	\$ (87)
	9-10-73	8.10	5,400	18	-	5,418	5,386	(32)
	10- 1-73	6.00	500	1	-	501	497	(4)
	12-10-73	5 3/4	40,800	109	-	40,909	40,265	(644)
	12-10-73	7.15	43,645	313	-	43,958	43,290	(668)
	3-11-74	5.45	13,485	-	5	13,480	13,181	(299)
	3-11-74	7 3/4	29,910	401	-	30,311	29,648	(663)
	6-10-74	5.70	38,940	-	82	38,858	37,480	(1,378)
	6-10-74	7.90	22,780	327	-	23,107	22,538	(569)
	9-10-74	5.65	6,880	-	11	6,869	6,639	(230)
	12-10-74	6.45	50,150	415	-	50,565	48,646	(1,919)
	3-10-75	6.35	33,390	302	-	33,692	32,346	(1,346)
	3-10-75	7.55	43,700	1,038	-	44,738	43,154	(1,584)
	6- 2-75	8 3/8	750	13	-	763	749	(14)
	6-10-75	5 1/4	13,000	-	106	12,894	12,301	(593)
	9-10-75	6.80	2,000	-	43	1,957	1,939	(18)
	9-10-75	7 1/2	28,340	845	-	29,185	27,879	(1,306)
	12-10-75	5.70	7,750	-	15	7,735	7,343	(392)
	3-10-76	5.65	15,345	-	65	15,280	14,443	(837)
	3-10-76	7 1/8	3,700	-	72	3,628	3,610	(18)
	6-10-76	5.85	6,300	-	135	6,165	5,926	(239)
	9-10-76	5.85	11,220	-	275	10,945	10,519	(426)
	9-10-76	6 1/8	25,750	-	19	25,731	24,382	(1,349)
	12-10-76	7.45	<u>23,100</u>	<u>639</u>	<u>-</u>	<u>23,739</u>	<u>22,523</u>	<u>(1,216)</u>
Forward			\$486,960	\$4,439	\$ 828	\$490,571	\$474,740	\$(15,831)

Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government agency securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u> 1/	<u>Appreciation (Depreciation)</u>
Forwarded			\$486,960	\$4,439	\$ 828	\$490,571	\$474,740	\$(15,831)
Federal National Mortgage Association Debentures (continued)	3-10-77	6.30 %	3,155	-	62	3,093	2,974	(119)
	6-10-77	6 3/8	5,300	-	21	5,279	4,982	(297)
	9-12-77	6 7/8	35,590	776	-	36,366	34,077	(2,289)
	6-12-78	7.15	8,000	-	188	7,812	7,700	(112)
	12-11-78	6 3/4	44,500	533	-	45,033	42,275	(2,758)
	9-10-79	6.40	2,000	-	123	1,877	1,855	(22)
	12-10-79	6.55	10,500	-	23	10,477	9,765	(712)
	3-10-80	6 7/8	7,970	107	-	8,077	7,552	(525)
	12-10-80	6.60	1,000	-	65	935	930	(5)
	3-10-81	7.05	1,000	-	36	964	957	(7)
	6-10-81	7 1/4	17,120	460	-	17,580	16,478	(1,102)
	9-10-81	7 1/4	28,880	761	-	29,641	27,797	(1,844)
	6-10-82	6.65	9,450	-	36	9,414	8,765	(649)
	9-10-82	6.80	8,500	-	140	8,360	7,969	(391)
	6-10-83	6 3/4	14,400	-	101	14,299	13,392	(907)
	6-10-83	7.30	7,000	-	167	6,833	6,790	(43)
	9-12-83	6 3/4	40,325	-	315	40,010	37,502	(2,508)
	6-11-84	6 1/4	13,430	-	593	12,837	11,986	(851)
	12-10-84	6.90	39,080	-	47	39,033	36,735	(2,298)
	10- 1-90	8 5/8	17,150	1,537	-	18,687	17,922	(765)
	3-10-92	7.00	18,100	-	175	17,925	16,788	(1,137)
	6-10-92	7.05	6,500	-	77	6,423	6,045	(378)
	10- 1-97	7.40	15,215	-	226	14,989	14,226	(763)
	12-10-97	7.10	<u>2,000</u>	<u>-</u>	<u>137</u>	<u>1,863</u>	<u>1,845</u>	<u>(18)</u>
			<u>\$843,125</u>	<u>\$8,613</u>	<u>\$3,360</u>	<u>\$848,378</u>	<u>\$812,047</u>	<u>\$(36,331)</u>

Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government agency securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u> 1/	<u>Appreciation (Depreciation)</u>
Government National Mortgage Association Participation Certificates	1-19-77	5.20 %	\$ 2,300	\$ -	\$ 61	\$ 2,239	\$ 2,105	\$ (134)
	8-14-78	6 1/8	1,400	-	6	1,394	1,299	(95)
	1-19-82	5.20	7,500	-	800	6,700	6,300	(400)
	4-16-87	5.10	2,950	-	427	2,523	2,330	(193)
	12-11-87	6.40	4,200	-	163	4,037	3,780	(257)
	2- 1-88	6.05	7,500	-	569	6,931	6,506	(425)
	4- 8-88	6.45	5,500	-	192	5,308	4,964	(344)
	8-12-88	6.20	<u>6,250</u>	<u>-</u>	<u>397</u>	<u>5,853</u>	<u>5,484</u>	<u>(369)</u>
			<u>\$37,600</u>	<u>\$ -</u>	<u>\$2,615</u>	<u>\$34,985</u>	<u>\$32,768</u>	<u>\$(2,217)</u>



Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government agency securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u> 1/	<u>Appreciation (Depreciation)</u>
Farmers Home Administration Notes	3-31-77	6.35 %	\$10,509	\$ -	\$ 63	\$10,446	\$ 9,852	\$ (594)
	6-30-77	6.45	6,997	-	119	6,878	6,568	(310)
	8-31-77	6 7/8	8,493	-	211	8,282	8,090	(192)
	12-29-77	6.55	3,520	-	29	3,491	3,300	(191)
	3-21-78	7.20	603	-	3	600	579	(21)
	5-12-78	7 1/4	1,703	-	47	1,656	1,637	(19)
	11-30-80	7.00	5,001	-	50	4,951	4,688	(263)
	3-31-81	6.40	8,016	-	216	7,800	7,214	(586)
	6-30-81	7 7/8	6,998	180	-	7,178	6,911	(267)
	1- 4-82	7.10	4,998	-	13	4,985	4,698	(287)
	7-31-85	8 5/8	21,007	1,429	-	22,436	21,742	(694)
	12-29-87	7 1/8	1,506	-	83	1,423	1,382	(41)
	3-21-88	7.50	1,004	-	33	971	954	(17)
	5-12-88	7.50	9,006	-	251	8,755	8,556	(199)
			<u>\$89,361</u>	<u>\$1,609</u>	<u>\$1,118</u>	<u>\$89,852</u>	<u>\$86,171</u>	<u>\$(3,681)</u>

Schedule I  
(continued)

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government agency securities</u>	<u>Maturity</u>	<u>Rate</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value 1/</u>	<u>Appreciation (Depreciation)</u>
U.S. Postal Service Bonds	2- 1-97	6 7/8%	<u>\$24,250</u>	<u>\$ -</u>	<u>\$1,136</u>	<u>\$23,114</u>	<u>\$21,158</u>	<u>\$(1,956)</u>
Washington Metropolitan Area Transit Authority Bonds	7- 1-2012	7.30	\$ 9,750	\$ -	\$ 113	\$ 9,637	\$ 8,933	\$ (704)
	7- 1-2012	7.35	<u>7,000</u>	<u>-</u>	<u>177</u>	<u>6,823</u>	<u>6,449</u>	<u>(374)</u>
			<u>\$16,750</u>	<u>\$ -</u>	<u>\$ 290</u>	<u>\$16,460</u>	<u>\$15,382</u>	<u>\$(1,078)</u>

Schedule I  
(continued)

RECAPITULATION

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

<u>U.S. Government securities</u>	<u>Per cent</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u>	<u>1/</u>	<u>Appreciation (Depreciation)</u>
Treasury Bills	45.1	\$34,857,300	\$ -	\$600,519	\$34,256,781	\$34,145,965		\$ (110,816)
Treasury Notes	48.1	37,138,248	42,261	59,133	37,121,376	35,757,949		(1,363,427)
Treasury Bonds	<u>4.7</u>	<u>3,663,655</u>	<u>675</u>	<u>142,786</u>	<u>3,521,544</u>	<u>3,251,762</u>		<u>(269,782)</u>
	97.9	<u>\$75,659,203</u>	<u>\$42,936</u>	<u>\$802,438</u>	<u>\$74,899,701</u>	<u>\$73,155,676</u>		<u>\$(1,744,025)</u>
Export-Import Bank of the United States Debentures		\$ 104,665	\$ 214	\$ 1,261	\$ 103,618	\$ 98,271		\$ (5,347)
Federal Home Loan Bank Notes		245,250	3,370	1,066	247,554	240,620		(6,934)
Federal Intermediate Credit Bank Debentures		78,095	13	249	77,859	76,961		(898)
Federal Land Bank Bonds		177,762	863	774	177,851	171,831		(6,020)
Federal National Mortgage Association Debentures		843,125	8,613	3,360	848,378	812,047		(36,331)
Government National Mortgage Association Participation Certificates		37,600	-	2,615	34,985	32,768		(2,217)
Farmers Home Administration Notes		89,361	1,609	1,118	89,852	86,171		(3,681)
U.S. Postal Service Bonds		24,250	-	1,136	23,114	21,158		(1,956)
Washington Metropolitan Area Transit Authority Bonds		<u>16,750</u>	<u>-</u>	<u>290</u>	<u>16,460</u>	<u>15,382</u>		<u>(1,078)</u>
	<u>2.1</u>	<u>\$ 1,616,858</u>	<u>\$14,682</u>	<u>\$ 11,869</u>	<u>\$ 1,619,671</u>	<u>\$ 1,555,209</u>		<u>\$ (64,462)</u>
	<u>100.</u>	<u>\$77,276,061</u>	<u>\$57,618</u>	<u>\$814,307</u>	<u>\$76,519,372</u>	<u>\$74,710,885</u>		<u>\$(1,808,487)</u>

Schedule I  
(continued)

RECAPITULATION

INVENTORY AND APPRAISAL OF HOLDINGS  
(In thousands)

MATURITIES

<u>U.S. Government securities</u>	<u>Per cent</u>	<u>Par value</u>	<u>Premium</u>	<u>Discount</u>	<u>Book value</u>	<u>Market value</u> <sup>1/</sup>	<u>Appreciation (Depreciation)</u>
Less than 6 months	42.3	\$32,731,035	\$ 534	\$446,805	\$32,284,764	\$32,202,906	\$ (81,858)
6 months to 1 year	7.1	5,480,722	4,580	158,164	5,327,138	5,250,480	(76,658)
1 to 2 years	16.2	12,510,277	2,438	8,770	12,503,945	12,097,121	(406,824)
2 to 5 years	19.5	15,034,753	41,531	11,449	15,064,835	14,531,906	(532,929)
5 to 10 years	12.5	9,665,626	5,569	78,249	9,592,946	9,095,779	(497,167)
Over 10 years	<u>2.4</u>	<u>1,853,648</u>	<u>2,966</u>	<u>110,870</u>	<u>1,745,744</u>	<u>1,532,693</u>	<u>(213,051)</u>
	<u>100.</u>	<u>\$77,276,061</u>	<u>\$57,618</u>	<u>\$814,307</u>	<u>\$76,519,372</u>	<u>\$74,710,885</u>	<u>\$(1,808,487)</u>

<sup>1/</sup> Market value computed at the midpoint between dealers' bid and asked prices at closing July 27, 1973.

PARTICIPATIONS OF THE FEDERAL RESERVE BANKS IN U.S. TREASURY AND  
GOVERNMENT AGENCY SECURITIES BY CLASS OF SECURITY

(In thousands)

At the close of business July 27, 1973

	<u>Bills</u>	<u>Notes</u>	<u>Bonds</u>	<u>Agencies</u>	<u>Total</u>	<u>Per cent</u>
Federal Reserve Bank-						
Boston	\$ 1,590,231	\$ 1,694,321	\$ 167,172	\$ 73,765	\$ 3,525,489	4.6
New York	9,374,184	9,987,589	985,257	434,822	20,781,852	26.9
Philadelphia	1,815,108	1,933,863	190,754	84,194	4,023,919	5.2
Cleveland	2,519,305	2,684,167	264,797	116,858	5,585,127	7.2
Richmond	2,488,492	2,651,337	261,557	115,429	5,516,815	7.1
Atlanta	1,865,623	1,987,713	196,096	86,537	4,135,969	5.4
Chicago	5,562,721	5,926,707	584,646	258,026	12,332,100	16.0
St. Louis	1,287,381	1,371,590	135,275	59,714	2,853,960	3.7
Minneapolis	722,523	769,801	75,940	33,514	1,601,778	2.1
Kansas City	1,342,352	1,430,231	141,128	62,267	2,975,978	3.8
Dallas	1,533,145	1,633,452	161,122	71,114	3,398,833	4.4
San Francisco	<u>4,756,235</u>	<u>5,067,477</u>	<u>499,911</u>	<u>220,618</u>	<u>10,544,241</u>	<u>13.6</u>
	<u>\$34,857,300</u>	<u>\$37,138,248</u>	<u>\$3,663,655</u>	<u>\$1,616,858</u>	<u>\$77,276,061</u>	<u>100.</u>

PARTICIPATIONS OF THE FEDERAL RESERVE BANKS IN THE ACCOUNT  
(In thousands)

At the close of business July 27, 1973

	<u>Assets</u>					<u>Liabilities</u>	<u>Participations-</u>		
	<u>U.S. Government securities-</u>			<u>Accrued</u>	<u>Premium</u>	<u>Total</u>	<u>Discount</u>	<u>net</u>	
	<u>at par value</u>							<u>interest</u>	<u>account</u>
	<u>Pledged</u>	<u>Unpledged</u>	<u>Total</u>				<u>Amount</u>		<u>Per cent</u>
Federal Reserve Bank-									
Boston-	\$ 3,160,000	\$ 365,489	\$ 3,525,489	\$ 40,475	\$ 2,628	\$ 43,103	\$ 37,154	\$ 3,531,438	4.6
New York	16,250,000	4,531,852	20,781,852	238,587	15,495	254,082	219,012	20,816,922	26.9
Philadelphia	3,700,000	323,919	4,023,919	46,197	3,000	49,197	42,407	4,030,709	5.2
Cleveland	4,850,000	735,127	5,585,127	64,120	4,165	68,285	58,860	5,594,552	7.2
Richmond	5,155,000	361,815	5,516,815	63,336	4,113	67,449	58,140	5,526,124	7.1
Atlanta	3,600,000	535,969	4,135,969	47,483	3,084	50,567	43,587	4,142,949	5.4
Chicago	9,900,000	2,432,100	12,332,100	141,579	9,195	150,774	129,964	12,352,910	16.0
St. Louis	2,480,000	373,960	2,853,960	32,765	2,128	34,893	30,077	2,858,776	3.7
Minneapolis	1,200,000	401,778	1,601,778	18,389	1,195	19,584	16,880	1,604,482	2.1
Kansas City	2,600,000	375,978	2,975,978	34,166	2,219	36,385	31,363	2,981,000	3.8
Dallas	2,580,000	818,833	3,398,833	39,021	2,534	41,555	35,819	3,404,569	4.4
San Francisco	<u>7,900,000</u>	<u>2,644,241</u>	<u>10,544,241</u>	<u>121,054</u>	<u>7,862</u>	<u>128,916</u>	<u>111,122</u>	<u>10,562,035</u>	<u>13.6</u>
	<u>\$63,375,000</u>	<u>\$13,901,061</u>	<u>\$77,276,061</u>	<u>\$887,172</u>	<u>\$57,618</u>	<u>\$944,790</u>	<u>\$814,385</u>	<u>\$77,406,466</u>	<u>100.</u>

Attachment

PROCEDURES WITH RESPECT TO ALLOCATIONS  
OF THE SYSTEM OPEN MARKET ACCOUNT

July 18, 1972

1. Securities in the System Open Market Account shall be reallocated on the last business day of each month by means of adjustments proportionate to the adjustments that would have been required to equalize approximately the average ratios of gold holdings to note liabilities of the twelve Federal Reserve Banks based on the ratios of gold to notes for the most recent five business days.

2. Until the next reallocation the Account shall be apportioned on the basis of the ratios determined in paragraph 1, except that temporary interim adjustments may be made in the apportionments for two or more Banks when desirable in the judgment of the Director of the Board's Division of Federal Reserve Bank Operations and the Manager of the System Open Market Account.

3. Profits and losses on the sale of securities from the Account shall be allocated on the day of delivery of the securities sold on the basis of each Bank's current holdings at the opening of business on that day.

REPORT OF EXAMINATION  
OF THE  
FOREIGN CURRENCY OPERATIONS  
AT THE CLOSE OF BUSINESS  
JULY 27, 1973

Board of Governors of the Federal Reserve System  
Washington, D. C.



FOREIGN CURRENCY OPERATIONS

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

August 28, 1973

CONFIDENTIAL (FR)

Mr. Arthur L. Broida  
Secretary  
Federal Open Market Committee  
Board of Governors of the  
Federal Reserve System  
Washington, D. C. 20551

Dear Mr. Broida:

An examination of the foreign currency operations was made at the close of business July 27, 1973, in conjunction with our annual examination of the Federal Reserve Bank of New York. This report is submitted for the information of the Federal Open Market Committee.

SCOPE OF EXAMINATION

The examination, conducted in accordance with generally accepted auditing standards, included: verification of the asset and liability accounts; tests of the accounting records, the earnings accounts, and the profits and losses resulting from completed transactions; determination that the transactions were properly authorized and processed; evaluation of internal controls; review of the scope

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SCOPE OF EXAMINATION (continued)

and frequency of audits made by the resident auditing staff; and other examination procedures as we considered necessary or appropriate.

SUMMARY OF FINDINGS

In our opinion, the accompanying statement (Exhibit A) presents fairly the foreign currency deposit balances at July 27, 1973. The participation of each of the Federal Reserve Banks in these account balances is shown in Exhibit B.

During the interval between examinations, distribution of interest earnings on foreign currency balances and net loss on foreign exchange operations among the Federal Reserve Banks (Exhibit C) was made on the basis of participation percentages. These percentages are determined at the beginning of each year by a computation of the ratio of each Bank's capital and surplus to the total capital and surplus for all Banks combined.

We reviewed the transactions in effect on the date of our examination and determined that the pertinent authorizations issued by the Federal Open Market Committee were being followed. In our opinion, the accounting records and the internal controls in effect are adequate.

Respectfully submitted,



E. Maurice McWhirter  
Associate Director  
Division of Federal Reserve Bank Operations

FOREIGN DEPARTMENT

SYSTEM FOREIGN CURRENCY BALANCES  
(In thousands)

At the close of business July 27, 1973

	<u>Balance</u>	<u>Dollar value</u>
<u>Belgian francs</u>		
Banque Nationale de Belgique	4,315	\$ 97
Bank for International Settlements	2,670	61
<u>Canadian dollars</u>		
Bank of Canada	96	90
<u>British pounds</u>		
Bank of England	64	163
<u>German marks</u>		
Deutsche Bundesbank	36	12
Bank for International Settlements	18	6
<u>Japanese yen</u>		
The Bank of Japan	329,846	1,047
<u>Swiss francs</u>		
Bank for International Settlements	11,125	<u>2,951</u>
		<u>\$4,427</u>

PARTICIPATION OF THE FEDERAL RESERVE BANKS  
(In thousands)

At the close of business July 27, 1973

	<u>Per cent</u>	<u>Dollar carrying value</u>
Federal Reserve Bank-		
Boston	4.2	\$ 168
Philadelphia	4.9	196
Cleveland	9.1	364
Richmond	5.2	208
Atlanta	7.0	280
Chicago	15.7	628
St. Louis	3.4	136
Minneapolis	2.3	92
Kansas City	4.2	168
Dallas	5.4	216
San Francisco	<u>12.5</u>	<u>500</u>
	73.9	\$2,956
New York	<u>26.1</u>	<u>1,471</u>
	<u>100.</u>	<u>\$4,427</u>

DISTRIBUTION OF INTEREST EARNINGS AND LOSSES ON FOREIGN EXCHANGE  
(In thousands)

January 1 to July 27, 1973

	<u>Per cent</u>	<u>Interest Earnings</u>	<u>Losses on Foreign Exchange</u>
Federal Reserve Bank-			
Boston	4.2	\$ 44	\$ 376
Philadelphia	4.9	51	438
Cleveland	9.1	89	814
Richmond	5.2	51	465
Atlanta	7.0	67	626
Chicago	15.7	148	1,404
St. Louis	3.4	33	304
Minneapolis	2.3	23	206
Kansas City	4.2	41	376
Dallas	5.4	54	483
San Francisco	<u>12.5</u>	<u>126</u>	<u>1,118</u>
	73.9	\$727	\$6,610
New York	<u>26.1</u>	<u>255</u>	<u>2,335</u>
	<u>100.</u>	<u>\$982</u>	<u>\$8,945</u>

Exhibit C  
(continued)

DISTRIBUTION OF INTEREST EARNINGS AND LOSSES ON FOREIGN EXCHANGE  
(In thousands)

Year 1972

	<u>Per cent</u>	<u>Interest Earnings</u>	<u>Losses on Foreign Exchange</u>
Federal Reserve Bank-			
Boston	4.5	\$ 23	\$ 2,333
Philadelphia	5.2	26	2,696
Cleveland	9.1	46	4,717
Richmond	5.2	26	2,695
Atlanta	6.8	34	3,525
Chicago	14.9	76	7,723
St. Louis	3.4	17	1,762
Minneapolis	2.3	12	1,192
Kansas City	4.2	21	2,177
Dallas	5.5	28	2,851
San Francisco	<u>12.9</u>	<u>65</u>	<u>6,687</u>
	74.0	\$374	\$38,358
New York	<u>26.0</u>	<u>132</u>	<u>13,477</u>
	<u>100.</u>	<u>\$506</u>	<u>\$51,835</u>