



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

April 30, 1982

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 Division of Federal Reserve Bank Operations as of the close of business May 29, 1981, and submitted by Mr. Farnsworth, Director, on April 20, 1982. 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 considered at the meeting of the Committee on May 18.

Enclosure



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

DIVISION OF FEDERAL
RESERVE BANK OPERATIONS

April 20, 1982

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, May 29, 1981, 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; verification of bankers' acceptances held by the Acceptance Division for the account of the Foreign Department and under repurchase agreements and examination of a random sample for negotiability, eligibility, and correctness of timing; 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, and other examination procedures as we considered necessary or appropriate.

RESTRICTED

Mr. Murray Altmann

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Summary of Findings

Domestic Open Market Operations

In our opinion, the records of the Securities Department fairly represented the domestic security holdings as of May 29, 1981 (see attached tables), and the results of operations for the interval since the last examination, November 21, 1980.

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 presented fairly the asset and liability accounts related to the foreign currency operations as of May 29, 1981 (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. A review was also made to assure that 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 are adequate.

Sincerely yours,



Clyde H. Farnsworth, Jr.
Director

Attachments-
Table I
Table II

SYSTEM OPEN MARKET DOMESTIC SECURITY AND FOREIGN CURRENCY HOLDINGS

As of May 29, 1981

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	\$127,031,075,000.00	
Less Discount	(2,144,828,904.40)	
Plus Premium	226,099,402.05	
Plus Interest Accrued	1,617,137,024.01	
Book Value		126,729,482,521.66
Held Under Repurchase Agreements <u>1/</u>	\$ -0-	
Less Discount	-0-	
Plus Premium	-0-	
Plus Interest Accrued	-0-	
Book Value		-0-
Total Book Value		\$126,729,482,521.66

B. Foreign Currency Operations

	Units of Foreign Currency	
Belgian Francs	10,758,517.00	\$ 301,657.32
Canadian Dollars	154,286.80	143,279.18
British Pounds	63,731.30	162,457.61
French Francs	16,547,945.52	3,471,858.19
German Marks "B"	5,110,908,672.81	2,563,022,656.43
Japanese Yen	92,803,518,736.00	408,399,643.31
Netherland Guilders	29,517,013.09	12,524,192.86
Swiss Francs "B"	237,556,221.65	141,351,367.82
Swiss Franc Warehousing- E-1	1,247,000,000.00	682,838,681.41
Swiss Franc Warehousing- E-2	685,332,863.11	375,291,639.10
German Marks Warehousing- E-2	694,158,037.21	361,352,439.98
German Marks Warehousing- E	5,584,130,599.22	2,789,269,899.34
Total		\$ 7,338,129,772.55
TOTAL HOLDINGS		<u>\$134,067,612,294.21</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 May 29, 1981

A. Domestic Operations

Bankers' Acceptances:

Discount Earned- Outright Purchases	\$ -0-
Discount Earned- Repurchase Agreements	3,054,725.43

U. S. Treasury and
Government Agency Securities:

Earnings- Outright Purchases	5,598,936,081.44
Earnings- Repurchase Agreements	20,615,957.13
Earnings on SOMA Securities Loaned	1,102,906.21
Net Loss On Securities Sold	<u>(94,664,336.68)</u>
Total	\$5,529,045,333.53

B. Foreign Currency Operations

Interest Earned on Foreign Currency Investments	216,898,012.96
Loss on Foreign Exchange Transactions	<u>(413,983,320.60)</u>
Total	\$ (197,085,307.64)
TOTAL INCOME	<u><u>\$5,331,960,025.89</u></u>